

## UKRAINE COUNTRY COMMERCIAL GUIDE FY 2002

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Ukraine is a country of nearly 50 million people in close proximity to the markets of Central and Western Europe and the Middle East. The country's vast agricultural potential, its highly educated population, its transportation networks and the technological infrastructure it inherited from the Soviet Union provide Ukraine with excellent preconditions for strong economic growth. Upon gaining its independence in 1991 Ukraine focused attention on consolidating its nascent state and did not implement the types of deep structural reforms that laid the basis for rapid economic growth in some parts of Eastern Europe. Instead, it adopted a "go slow" approach to economic reform that led to nine years of successive economic declines. While the pace of reform has accelerated since early 2000, Ukraine is still far from joining the ranks of the world's developed market economies. Having taken serious strides toward fiscal and monetary stability which have stimulated significant economic growth, Ukraine must now create a strong legal basis for a market democracy in order to compete effectively for capital with its neighbors.

After contracting in every year since independence in 1991, Ukraine's economy started growing in 2000, with real GNP growing by 5.8%, and industrial output, disposable income, and consumer spending all growing by double-digit figures. The pace of growth has accelerated thus far in 2001, with year-on-year growth in the first half of 2001 at about 9 percent. At the same time, inflation dropped to 5.3% in the first six months of 2001 -- down from over 20 percent in the same period of 2000. The national currency, the hryvnia, has remained stable, and even appreciated slightly in 2001 as the demand for money increased with the growing economy. Ukraine's external economic situation remained sound as the trade surplus and foreign currency reserves both grew as foreign debt declined.

Exports and consumer spending have been the main factors behind Ukraine's strong economic performance. Strong growth in Russia, Ukraine's main trading partner, boosted Ukrainian exports. At home, pension and wage arrears were paid off, lifting consumer spending and consumer confidence. Food products and consumer goods industries are now the fastest growing sectors in Ukraine. Increased consumer confidence is also being reflected in the troubled banking sector with household bank accounts increasing by 45 percent in the first half of 2001. Business confidence in general is up as well, as evidenced by the strong growth in new business registrations, mostly in the small- to medium-enterprise sector. Growth was also fueled by the first successes of the reform-minded government that came into power in early 2000. Cash collections and transparency were improved in the notoriously corrupt energy sector, and new legislation was enacted which should simplify the licensing of business activity.

A lengthy period of political uncertainty distracted the government and parliament away from the real work of reform in late 2000 and early 2001. Despite the level of anxiety among business circles and foreign investors, however, economic growth continued throughout the crisis (although its pace has increased as the political situation has calmed). The political unrest began in the fall of 2000 with the disappearance and subsequent confirmed death of a journalist, and with allegations of presidential

involvement in the journalist's death. Preoccupation with the scandal and subsequent political infighting led to a virtual halt in the forward progress of reforms in many areas and even reversals in some.

After the government of the reform-oriented Prime Minister Yushchenko fell to a no confidence vote in April of 2001, many observers feared that political forces in the Rada were arrayed in such a way as to make approval of a new reform-minded Prime Minister impossible. Many in business and media circles predicted that any new government would simply serve as a caretaker until the Parliament elections in March of 2002 and would therefore lack the political power to rejuvenate the reform agenda. As of mid-2001, these fears appeared to have been unfounded. Immediately upon assuming office in May, Prime Minister Kinakh declared his intention not only to maintain the reforms of the Yushchenko era, but to accelerate them. Within just a few months, President Kuchma and Prime Minister Kinakh have successfully lobbied the Rada to pass key reform legislation, including a very progressive budget code, the first three books of a comprehensive civil code that will help bring order to fundamental commercial matters such as contract law, and a new and more effective criminal code. In addition to these major legislative achievements, the government managed the passage of less notable but still significant pieces of legislation such as laws aimed at streamlining and standardizing the product certification process and laws to reduce government regulation of the economy.

While these reform successes are welcome, they represent the beginning rather than the end of what will be a long process. At present, the investment and business climate in Ukraine remains fraught with difficulties. A large overhang of underutilized industrial capacity facilitated the economic growth that began in 2000. The economy is likely to run into trouble within the next two years as remaining excess capacity is put back into production unless the pace of new investment picks up. Unfortunately, the investment climate in Ukraine remains poor with both domestic and foreign direct investment hampered by a number of structural barriers. Ukraine's complex and contradictory tax system as well as the overall high tax rates are cited by both foreign and domestic businesses as a major deterrent to investment. As in many other transition economies, the rule of law in Ukraine remains in its infancy. While the government is attempting to pass new basic legislation to help improve the independence and professionalism of the judiciary, courts remain very weak and subject to political and other pressures. Allegations of unfair rulings in commercial cases are common. While private ownership of land is enshrined in Ukraine's constitution, a land code laying out the legal foundations of private property and well as the foundations of a market for land has yet to be passed. The legal basis for corporate governance is weak and minority shareholders have almost no legal ability to protect their interests. Rules governing privatization will need to be applied more consistently and with more transparency if Ukraine is to realize its dream of using foreign direct investment to privatize and revitalize former state enterprises. The shadow economy remains large, with many observers estimating that it is as large if not larger than the "official" economy.

Corruption acts a severe brake on investment. Ukraine consistently ranks among the most corrupt countries in Transparency International's annual review of transparency and corruption. A World Bank study published in 2000 ranked Ukraine among the worst Eastern European nations in terms of both administrative and state capture corruption. The World Bank defines administrative corruption as the taking of bribes and other illegal payments. In a 2000 business survey conducted by the International Financial

Corporation (IFC), 100% of firms responding indicated that they had been compelled to pay unauthorized fees to obtain basic government services such as business permits, fire inspection reports, etc. An aggressive campaign instituted by the government of Ukraine to reduce over-regulation is leading to a decrease in administrative corruption but much remains to be done. Many observers believe administrative corruption must be addressed in tandem with the problem of unrealistically low government wages. As long as members of the Cabinet of Ministers make only about US\$300 per month while police and other inspectors often make as little as \$30, stamping out administrative corruption will remain difficult. Many observers believe that state capture corruption represents a more severe threat to economic growth and foreign investment. The World Bank defines "state capture corruption" as occurring when politically influential individual or groups use their power to appropriate for themselves sections of the economy. In Ukraine, a group commonly referred to as "oligarchs" control a significant portion of the economy, particularly in the spheres of mass media, energy and heavy industries such as steel and chemicals. Many of these oligarchs enjoy immunity from prosecution thanks to their seats in the Rada (parliament).

Despite the many hurdles they face, U.S. companies have consistently remained at the top of the list of foreign direct investors in Ukraine and have remained active in seizing the opportunities offered by Ukraine's growing economy. Growth prospects and investment opportunities are particularly strong in IT and telecommunications, food processing and packing, textile cutting and sewing, woodworking, furniture and building materials, automotive parts, pharmaceuticals, medical equipment and aerospace. In addition, the Department of Commerce's Foreign Commercial Service has identified significant investment opportunities in the fields of electrical power systems, energy efficiency, and oil and gas equipment. The U.S. Embassy's Commercial Section intends to promote stronger relationships between U.S. and Ukrainian producers in these business sectors, and plans to have another USA Pavilion at a Telecoms/IT trade show and large catalog shows at leading construction and automotive parts trade expositions.

Although foreigners may at first glance find Ukraine's import regime daunting, experience shows that it is not insurmountable and is comparable to other transitional economies in the region. Importers must pay a series of import taxes, including value-added-tax, import duties and fees, and, if applicable, excise taxes. Import duties are often higher for products that are also produced in Ukraine. Customs valuations generally conform to world standards. While the number of goods requiring specific import licenses has been cut considerably, a large number of goods are still subject to import licensing. There are numerous other non-tariff barriers to trade, including a range of technical and phytosanitary regulations and inspection procedures. A draft Customs Code as well as continuing accession negotiations with the World Trade Organization (WTO) offer hope for easier import procedures and lower tariff and non-tariff barriers in the coming years.

U.S. businesses exporting goods to Ukraine will discover that the country's commercial infrastructure, which still only partially developed, has matured rapidly over the last two to three years. Logistics and distribution networks have improved dramatically, and Western forms of structuring businesses such as franchising, leasing, and licensing are becoming more common. The U.S. Embassy strongly advises U.S. companies to consider using competent legal counsel before and while doing business in Ukraine, since the country's weak and ever-evolving legal institutions and infrastructure have in

the past caused serious problems for foreign companies trying to establish a foothold in the country. Due to weak corporate governance laws and courts' track records on adjudicating commercial problems, care should also be taken when choosing distribution and marketing partners, and when establishing joint ventures with Ukrainian companies. Dispute settlement can prove difficult, expensive, time-consuming and ultimately unfair.

## **A. Major Trends and Outlook**

Ukraine was deeply integrated into the former Soviet economy, particularly in the agricultural and defense industries. Upon achieving independence, many analysts believed Ukraine had the best medium-term prospects for economic development of any of the former Soviet republics, including Russia. Ukraine's vast agricultural resources, port and shipbuilding facilities, machinery sector, transportation network, and skilled workforce created a favorable investment picture. Ukrainian authorities, however, did not undertake structural economic reforms. In the early 1990s, Ukraine experienced serious inflation, privatization was at a standstill, real wages plummeted, and economic output continued its steep decline.

The economic situation deteriorated throughout most of the 1990s. A brief period of stabilization ended abruptly when Ukraine was drawn into the wake of the Russian financial crisis in 1998. Ukraine recovered quickly, however, and since early 2000 the economic situation has improved remarkably. For the first time since independence, the Ukrainian economy grew in the year 2000. The GNP grew by 5.8%, industrial production by 12.5%, disposable income by 11% and consumer spending by 12%. The national currency, the hryvnia, remained stable, as did prices and interest rates. This trend accelerated during the first half of the year 2001: real economic growth was about 9% on an annual basis for the first six months of the year, industrial output surged, inflation dropped to 5.3% for the first six months of the year, and the hryvnia even appreciated slightly. The number of new business registrations, almost exclusively small and medium enterprises, has increased sharply as well during the past two years. An improvement in business sentiment and consumer confidence is also reflected in the recent growth in bank deposits and bank loans, and by strong growth in consumer spending and reduced consumer saving in the first quarter of 2001.

Several factors contributed to the strong turnaround. High energy prices on the world markets facilitated Russia's rebound from the 1998 crisis, and strong growth in Russia, still Ukraine's main export market, overlapped into the Ukrainian economy. The 1999 elections delivered a pro-Presidential, and ostentatiously pro-reform, majority in the Rada (parliament), ending temporarily the parliamentary blockade which had stalled reform for most of the 1990s. A reform-orientated government quickly improved cash collections and transparency in the notoriously corrupt energy sector. Wage and pension arrears were nearly eliminated, and the government took first, albeit incomplete steps, to improve the investment climate in general and to ease state influence on private business in particular. The budget profited from the strong economic growth and increased monetization of the economy in the year 2000: for the first time since Independence the federal budget was balanced.

In the medium to longer term, however, a continuation of this positive trend will require further and substantial reform of Ukraine's society and economy. Several examples highlight the steps Ukraine needs to take to institutionalize reform. The tax system

needs overhauling to increase transparency and eliminate the numerous inconsistencies which are unfair to many types of taxpayers. High tax rates need to be reduced, and loopholes need to be closed to widen the tax base. Ukraine's tremendous agricultural potential will not be utilized until further issues affecting the private ownership of land and the development of a market for property are resolved. Ukraine's energy market, despite improved transparency, remains corrupt and energy prices are still distorted. Foreign investment is desperately needed for the Ukraine's decaying energy transportation and transmission systems, as well as its entire transportation infrastructure. Without improved transparency in the privatization process and strengthened corporate governance rules, however, such investments will not be forthcoming.

The jury remains out on Ukraine's commitment to further economic reform. In early 2001, a political scandal surrounding the still unresolved murder of a critical journalist and the publication of taped conversations purportedly made in the President's office have clouded Ukraine's international image. A new Prime Minister, and a new government nearly identical to the Yushchenko government, has reinforced the commitment to further economic reform. The new government will have to deal with a parliament divided on reform issues, however. In addition, parliamentary elections scheduled for March, 2002, may make it difficult for the government to overcome parliamentary hurdles motivated by short-term political maneuvering.

Ukraine's recent economic growth has been all the more remarkable due to the fact that the country went without significant external financial support since late 1998 until late 2000. A IMF Extended Fund Facility, established in September, 1998, was suspended several months later following irregularities involving the National Bank of Ukraine's currency transactions and Ukraine's failure to meet certain IMF requirements. These issues were resolved, and in late 2000 a first disbursement was made. However, further disbursements were suspended pending Ukraine's fulfillment of IMF requirements. As of mid 2001, the IMF and the Government of Ukraine were still involved in negotiations which may lead to a reinstatement of disbursements under the EFF program.

Following the 1998 crisis Ukraine defaulted on its sovereign debt to both public and private sector borrowers. Private sector debt was rescheduled in April 2000, and as of June, 2001, Ukraine had been servicing this rescheduled debt in a timely manner. Ukraine rescheduled its debt with the Paris Club of sovereign borrowers in July 2001. Resumption of the IMF's EFF funding is a precondition for this debt agreement to take effect. As of June, 2001, both the Overseas Private Investment Corporation (OPIC) and the Ex-Im Bank of the United States had suspended the approval of new projects in Ukraine pending the solution of outstanding investment dispute cases.

Perhaps no other country in the former Soviet Union (FSU) region has experienced such a large gap between economic performance and potential as Ukraine. Endowed with good natural resources, superb agricultural land, a well-educated population, ethnic peace, and a strategic location in Europe, Ukraine was positioned to be one of the most successful of the former Soviet states in attracting the foreign investment needed to restructure its economy.

Yet with an annual GDP of \$645 per capita as of the year 2000, Ukraine has one of the lowest levels of income in the FSU. The U.S., with some \$664 million out of total investment of \$3.9 billion, is the single largest source of foreign investment in Ukraine.

Growth in FDI in Ukraine has been very slow, and remains insignificantly small for a country of nearly 50 million people with the resource base and economic potential of Ukraine. In comparison, foreign direct investment in Poland since 1991 has been about \$40 billion, of which more than \$6 billion stems from American investors. Foreign direct investment in Hungary has been over \$20 billion during the same period, despite the fact that Hungary's population is only a fifth the size of Ukraine's. Russia has been increasingly active in buying stakes in Ukrainian companies, mostly in an attempt to vertically re-integrate large scale, Soviet-era enterprises in the energy, metallurgical and chemical sectors.

The IMF, the World Bank, the United States, and other donors have consistently delivered the same message to Ukraine during the past five years: in order to establish a market economy integrated into the European and world markets Ukraine needs to reduce the role of government in the economy, increase accountability and transparency while reducing corruption, establish the rule of law in all aspects of public life, and reduce the burdens placed on private enterprise.

The fact that U.S. investors continue to top the FSI tables shows their commitment to Ukraine despite the problems they encounter doing business in the country. Their problems, both specific and general, are a regular agenda item in all high-level bilateral meetings. While the Ukrainian government has demonstrated some commitment to getting outstanding investment disputes solved, the caseload remains large. Outstanding investment problems involving U.S. investors frequently reflect Ukraine's weak corporate governance laws and lack of protection for minority shareholders, or the inability to get court decisions enforced in an effective, comprehensive and timely manner.

Trends in U.S. direct investment in Ukraine have changed over time. Investment in large production facilities involving tens of millions of U.S. dollars practically came to a standstill following the 1998 crisis. The previously mentioned problems have increased the risks of doing business in Ukraine, and have led to a perceived instability, economic and political, on the part of foreign investors, rendering large scale, long-term capital commitments unattractive in the eyes of U.S. investors. Recently, American business interests in Ukraine have reported heightened interest on the part of small U.S. firms active in the information technology and hi-tech sectors. These companies' investments are small and mobile, and are targeted at the utilization of the skills of Ukraine's highly-educated workforce in the technical and engineering sectors..

Ukraine's reputation as a difficult place to do business is shared by investors from around the world. In its most recent Corruption Perceptions survey of 91 countries, Transparency International ranked Ukraine near the bottom.

## **B. Principal Growth Sectors**

Literally all the sectors considered good for investment - now or in the future - face the same business environment, one that is complicated by over-regulation, burdensome tax structures, inconsistent application of laws, and a lack of respect for the sanctity of the law. Sustainable macroeconomic growth will remain tied to overall structural changes such as tax reform, deregulation, privatization, budget austerity, and greater openness to trade. Nevertheless, recent economic growth is slowly strengthening Ukrainian

purchasing power. Assuming that economic growth and domestic investment continues, Ukrainian based companies can be expected to import higher-quality Western capital goods to modernize and expand their production capacity. Imported durable consumer goods such as shoes, clothing, and electrical household goods will likely witness continued demand in the future, although their market share has been threatened by the higher relative cost of imported goods caused by depreciation of the local currency prior to the year 2000. However, the recent development on the foreign exchange rate is alleviating this pressure. Since early 2000, the stable nominal exchange rate and the strong inflationary differential between Ukraine and dollar-based economies has caused a significant de facto real appreciation of the hryvnia. Demand continues as well for imported non-durable goods like foodstuffs, candies, and other grocery items.

**Agribusiness and the food processing and packaging** sectors have been among the more rapidly growing sectors of the economy, and remain areas of potential growth in the future. The sector's potential will depend on the government's commitment to transparent privatization and land-reform policies in agriculture, particularly through passage of a land code that was pending in the parliament in June of 2001. Many farm producers remain heavily indebted to the government for past deliveries of agricultural inputs, limiting ability to sustain growth in the agricultural sector.

The **energy sector** is another major area for potential investment. Ukraine's decaying electricity grid, as well as needed investment in power generating facilities and the country's energy extraction and transit systems, could potentially attract substantial sums of foreign investment. The successful privatizations of six regional electricity distribution companies (oblenergos) in April 2001 was a first, and significant step towards improving Ukraine's energy industry and towards increasing transparency and reducing corruption in the sector. This action was also the first truly large-scale privatization performed in Ukraine according to internationally accepted standards of transparency and fairness. A further 12 oblenergos are scheduled to be privatized in late 2001. Electricity generating companies are scheduled to be privatized in 2002. In an encouraging development, recent attempts to circumvent the transparent privatization process by stripping energy sector companies targeted for privatization of their most valuable assets have been stopped by the Ukrainian government.

**Telecommunications and information technology** are important growth sectors as well. The privatization of Ukrtelekom, the national telecommunications monopoly, is scheduled for 2002. The potential of Ukraine's highly qualified technical workforce has been increasingly recognized by foreign investors as well.

The **construction** industry experienced a boom in early 2000 after years of stagnation. Construction spending grew by 9% in the first quarter of 2001 on a year-to-year basis. U.S. companies can position themselves for this surge in demand by identifying qualified distributors in Ukraine or establishing an on-the-ground market presence.

### **C. Government Role in the Economy**

Privatization in Ukraine has proceeded unevenly thus far, with relatively rapid results in small-scale privatization and a slower pace for large-scale privatization. While the reasons for delays are complex, factors include: an underdeveloped legislative base without clear, easily understood procedures for selling state property; the absence of

political will to overcome strong resistance from local authorities and enterprise directors; parliamentary resistance; and a lack of clear incentives in the complicated privatization scheme. Privatization, for Ukrainian citizens as well as foreign investors, will remain a key variable that will shape Ukraine's success or failure in implementing market reforms.

Mass privatization of small- and medium scale enterprises was essentially completed in 1999. These enterprises, now in private hands, have contributed significantly to the economic growth of the recent past. In absolute numbers, Ukraine has now privatized the majority of formerly state-owned companies. In terms of employed workers and value of output, however, more than half of the country's productive assets still remain in state hands. Early in the year 2000 the government started implementation of a program aimed at privatizing those large scale enterprises still in government hands. The implementation of this program has been patchy, however. The April, 2001, privatization of six electricity distribution companies, which included two purchases by a U.S. investor, was to date the first, and only, large-scale privatization according to internationally accepted standards. This privatization was only made possible through consistent and high-level engagement and support on the part of the international donor community. A second test of Ukraine's ability and willingness to conduct transparent privatization will come with the scheduled sale of another 12 oblennergos in late 2001, and the planned sale of energy generating companies and the national telecom monopoly in 2002.

Other large-scale privatizations conducted since early 2000 have been marked by unclear, intransparent and changing regulations, and heavy political influence from all government players in the privatization process: the State Property Fund, the Presidential Administration, the Cabinet of Ministers and the Rada. Part of Ukraine's problems surrounding large-scale privatization are caused by the fact that the rules for privatization are still weak and poorly institutionalized, giving competing political interests -- and the lobbies that use them -- undue influence on the privatization process. Often management and workers resist the prospects of surrendering government ownership to investors interested in an adequate return on capital. Local and regional governments, who view large state-controlled enterprises within their jurisdictions as an important tool for political influence and patronage, resist surrendering the control that privatization implies. Ukrainian, and increasingly Russian, business interests have been known to use the weak institutional setting and wide-spread environment of corruption to circumvent privatization rules and procedures to their own advantage.

The attractiveness of many large-scale enterprises has been diminished by the fact that Ukraine has taken the strategic decision not to restructure enterprises before privatization, leaving this task to the investors acquiring the companies. While in theory this policy allows the new owners themselves to make the decisions affecting the long-term prospects of the company, in practice it forces investors to face the most difficult -- and in the end result only politically solvable -- questions surrounding the restructuring of Ukraine's Soviet-era industrial infrastructure, especially those involved downsizing productive capacity and the workforces of the purchased companies.

Despite these obstacles, Ukraine garnered 2.1 billion hryvnia (\$390 m) in privatization revues in the year 2000, a sum more than equal to the revenues earned from privatization in all previous years since independence, combined. Ukraine forecast 5.9 billion hryvnia in revenues in the year 2001, a figure which will not be met due to the decision to extend the overly optimistic timeline for privatization of the national telecom



carrier. In the future, improvement of the general investment climate and fair and transparent rules for privatization could lead to significant revenue growth for the state, and increased investment in and modernization of the Ukrainian economy.

#### **D. Balance of Payments Situation**

Ukraine has recovered from the massive capital outflow caused by the financial crisis of 1998. As a result of the crisis, reserves plummeted in 1998 to less than a third of their level in the previous year – despite very heavy international borrowing to prop up the reserves position. Reserves recovered somewhat in 1999 thanks in large measure to a major exchange rate adjustment that made Ukrainian products more competitive in both domestic and export markets. Since July 2000, reserves have increased sharply, from \$900 million to \$1.8 billion in June of 2001. As of this date, reserves were back at the levels known prior to the 1998 crisis. The growth is all the more remarkable due to the almost complete absence of external funding since 1998, and foreign investors increased tendency to shy away from the Ukrainian economy. Trade surpluses following the 1998 devaluation of the hryvnia were the main factor behind the growth in reserves. At the same time, however, reserve growth has been facilitated by the fact that Ukraine defaulted on its sovereign debt following the 1998 crisis.

The balance of payments situation improved substantially following the devaluation of the hryvnia in the wake of the 1998 financial crisis. Exports grew by 26% and imports by 15% in 2000. Exports grew another 20% in the first quarter of 2001, while imports fell by 5.8%. The current account balance, which was minus \$1.2 billion in 1998, grew to \$800 million in 1999 and leaped to \$1.4 billion in the year 2000. Russia remains Ukraine's major trading partner.

In mid-2001, Ukraine's balance of payments situation is far better than the situation experienced prior to the 1998 crisis. Short term portfolio capital flight is no longer a danger, and the valuation levels of the national currency are adequate. Ukraine's external balance of payments situation in the near to mid-term will be heavily influenced by its trade -- and its trade and debt policies -- with Russia. Russia remains Ukraine's top export market. A slowdown in the Russian economy will have an effect on Ukrainian growth. In addition, Ukraine's current account surplus depends heavily on the fact that in-kind Russian gas payments for use of the transit pipeline are monetized as service exports. Any diversification of Russia's gas shipments to Western Europe will therefore affect Ukraine's balance of payments situation. In addition, Ukraine still owns \$1.4 billion to Russia for unpaid energy bills. It is still unclear how, and when, this debt will be serviced.

Key Ukrainian exports in the metallurgical and chemical sectors are the object of various anti-dumping investigations around the world. In fact, Ukraine experienced its strongest growth in exports in the year 2000 in those sectors that are faced with anti-dumping activities.

#### **E. Infrastructure**

A large part of Ukraine's national infrastructure dates back to the post-World War II period. Economic decline, investment cutbacks, and insufficient service-charges have

led to the deterioration of this infrastructure. The tenuous state of Ukraine's telecommunications, energy systems, transportation, and road/highway infrastructure will require upwards of \$40 billion in investment over several decades. As part of international efforts to assist Ukraine in its transformation to a market economy, the World Bank, the European Bank for Reconstruction and Development, and other institutions have several infrastructure projects underway. Special emphasis will be given to energy conversion, projects that promote private-sector initiative in infrastructure development and improvement, and projects that promote improved nuclear safety.

#### **A. Nature of Bilateral Relationship with the U.S.**

A stable, independent, democratic, and market-oriented Ukraine is in the U.S. national interest. Such a Ukraine will be key to dealing with post-Cold War transnational problems like proliferation, and in shaping a more secure Europe. The United States unreservedly supports Ukraine's independence, sovereignty, and territorial integrity and is providing substantial technical assistance to help Ukraine make the changes necessary to solidify a democratic society based on rule-of-law, to reform the economy, and to integrate with the world economic system.

Starting in late 1993, the United States and Ukraine began to develop closer economic and commercial ties. The U.S. pursued a broad engagement with Ukraine across all fields and at all levels. The U.S. economic assistance program for Ukraine became after 1994 one of the largest American aid programs in the world. Funds granted through the Nunn-Lugar Cooperative Threat Reduction Program, targeted to assist the elimination of nuclear weapon systems and infrastructure in Ukraine, have also supported efforts to build an export control system and protect against proliferation.

Established in 1996, the U.S.-Ukraine Binational ("Gore-Kuchma") Commission provided a mechanism for regular review and deepening of bilateral political, economic, commercial, and military cooperation. President Bush's new administration decided in early 2001 to discontinue all bilateral commissions. However, both countries quickly confirmed their intent to continue undiminished regular working contacts and programs in the three main areas of trade, investment and economic reform; foreign policy and defense; and law enforcement. Both sides have paid special attention to improving the foreign investment climate in Ukraine, addressing specific business disputes and removing obstacles to the development of new business ventures.

#### **B. Major Political Issues Affecting the Business Climate**

The course of political reform was reasserted with the Ukrainian parliament's (Verkhovna Rada) June 28, 1996 passage of a new Constitution. The new Constitution recognizes the right to private ownership of land and property, strengthens provisions on the rule-of-law, and provides for a more independent judiciary, promising more effective legal protection for investors. It could also help facilitate the full passage of a long-delayed new Civil Code, with a Western-style commercial code.

The principles expressed in the Constitution, while laying the groundwork for market-economy reforms, have not yet been fully put into practice. Lack of legislation in many

areas of economic activity, as well as the absence of a reliable system to enforce existing legislation, are obstacles to achieving an investment climate that will attract substantial foreign investment. Key questions such as land ownership, land purchase by foreigners, privatization conditions, and taxation reform remain unresolved.

Corruption and crime inhibit legitimate business activity and foreign investment in Ukraine. President Kuchma has declared the fight against organized crime one of the top priorities of his administration, but with little or no effect to date.

There is a broad understanding of these problems within Ukrainian official circles and a general consensus among reformers on the need to ensure that foreign investors are greeted with a more favorable legal and regulatory climate. The hard work of translating that consensus into law is one of the most important challenges facing the Ukrainian political system today. Ensuring that these laws are effectively executed is a comparable challenge.

Ukrainian-Russian economic relations will likely continue to influence the larger investment picture in Ukraine. Areas of particular strain involve energy supplies and gas transit. Concern also exists about possible Russian attempts to exert economic pressure on Ukraine in the trade area.

### **C. Political System, Election Schedule, Orientation of Major Political Parties**

Ukraine's progress toward developing a democratic state based on the rule of law has been unsteady. Ukraine's first post-Soviet Constitution did not definitively resolve the formal division of powers among the three branches of government, but it has provided Ukrainians with a legal framework for addressing this problem. Additionally, it has codified fundamental rights of free speech, freedom of the press and assembly, and freedom of religion for all Ukrainians.

Elections to Ukraine's unicameral parliament, known as the Verkhovna Rada, will be held on March 31, 2002. The Verkhovna Rada has 450 seats and deputies are elected to four-year terms. Currently, half of the Rada's seats are elected in single-mandate districts and represent a territorial constituency. The other half are elected proportionally from political party lists. The last Rada elections were in March 1998. Leftist parties such as the Communists, Socialists, and Peasants made modest gains in those elections, but an influx of new business-oriented deputies elected in single-seat districts diluted their influence. In January 2000, a center-right pro-presidential majority was formed, breaking the left's traditional control over the legislature. This produced, for the first time since independence, a degree of cooperation among the president, prime minister and parliament, which resulted throughout most of 2000 in an improved atmosphere for the passage of reform legislation.

The prime minister is appointed and dismissed by the president, although his/her appointment is subject to parliamentary approval. The prime minister nominates and the president appoints the members of the Cabinets of Ministers. The prime minister can also be removed by a majority vote in the Verkhovna Rada. Should the prime minister be removed, the entire Cabinet of Ministers resigns. Prime Minister Viktor Yushchenko, who was named prime minister in December 1999 and formerly headed the National Bank of Ukraine, was viewed as a reformer, but he faced difficulties in fully carrying out

reforms and his clashes with powerful political/ business interests as well as with leftist factions brought about his ouster following an April 2001 no-confidence vote. In May, the Rada confirmed the head of the Union of Industrialists and Entrepreneurs, Anatoliy Kinakh, as Yushchenko's successor.

Ukraine's presidency remains the pre-eminent post in the Ukrainian government and economic and legal reform is primarily dependent on the president's support. The president is the commander-in-chief of the armed forces and may veto legislation. The Verkhovna Rada can override presidential vetoes by a two-thirds vote. Under the new Constitution, Ukrainians hold presidential elections every five years. President Leonid Kuchma was elected to a second term in November 1999. Soon thereafter, he named Yushchenko to be his new prime minister. The results of the ensuing government were the best in ten years of Ukrainian independence with respect both to economic indicators and to adoption of reform measures. However, the scandal that erupted in late 2000 around the murder of independent journalist Heorhiy Gongadze, and the revelation of tapes that seemed to indicate the president's possible complicity, fractured the pro-presidential parliamentary majority. Nevertheless, progress on reform has continued under the new Kinakh government.

Political parties are not very well developed in Ukraine. Most are organized around an individual or the business interests of a small group rather than a common ideology. There are over 100 registered political parties, although most are very small, without a significant political base. The largest continues to be the communist party, which pursues a largely unreformed communist agenda, including a voluntary union with Russia and Belarus, more state involvement in the economy, and large social protection programs. In the 1998 parliamentary elections, the communists won almost 25 percent of the national vote. Also on the left are the radical Progressive Socialist Party, the Peasant party, and the moderate Socialist Party. The left as a rule is generally opposed to President Kuchma. The center is dominated by "oligarch"-controlled, pro-presidential parties, including the Social Democratic Party of Ukraine (United), Regions of Ukraine, Labor Ukraine, and Democratic Union. Other pro-presidential groups in the center include the Greens, Solidarity, the National Democratic Party (NDP), and the Agrarians. Regions of Ukraine, Labor Ukraine, the Agrarians and NDP are moving towards a possible electoral alliance. On the right are a number of moderate nationalist parties including the two main branches of Rukh, the Reforms and Order Party, and the Congress of Ukrainian Nationalists. Another group consisting of non-leftist opponents of President Kuchma has united into the National Salvation Forum electoral bloc. The largest party in this bloc is the Fatherland Party. Currently in the parliament there are 14 different "factions," most of which contain members from more than one political party. The largest include the Communists, Labor Ukraine, and the Social Democratic Party of Ukraine (United).

#### **A. Distribution and Sales Channels**

The Ukrainian commercial infrastructure, while still only partially developed, has matured rapidly since Ukraine gained independence in 1991. During the Soviet period, Western-style distribution networks simply did not exist in Ukraine. Relationships between producers, suppliers, and end-users were disconnected; the command-administrative system simply directed goods and services with little rationale. The breakup of the Soviet Union resulted in the severe dislocation of supply and distribution networks, and

many Ukrainian consumers found themselves with bare shelves and widespread shortages of basic goods. This created an important vacuum for upstart Ukrainian entrepreneurs and the birth of a more market-based supply and distribution system.

During the last several years, a network of chain stores, brand name stores and supermarkets has emerged in Ukraine. They are usually located in the downtown areas of cities and are owned by Ukrainian or foreign private entrepreneurs. These are the most expensive retail outlets, initially designed for shoppers from among the nouveau riche. Although there is some competition among newly emerged distribution outlets and old-fashioned stores, each caters to the demands of a different group of consumers.

“Univermahs” (department stores), “universams” and “hastronoms” (food stores), specialty stores, and “rynky” (bazaars) are still where most low and middle class general end-users do their shopping. Department stores sell both locally produced and imported goods and rent space to several sellers of brand name cosmetics and personal care products. Universams, hastronoms, and specialty stores can be found in all municipal districts of Ukrainian cities. They sell mostly food items, but some distribute generic brands of personal care and household items.

Today, all former state-owned shops and department stores have been privatized into joint stock companies and have an opportunity to deal directly with producers and wholesale traders who supply the major share of imported products to the local market. An advantage of dealing with wholesalers is that they provide certification and license procedures for the imported products. Generally, department stores add 25% to the cost of general consumer products and 5% to audio-video goods and home appliances. The share of domestically produced products available in Ukrainian stores varies anywhere from 40% to 60%.

Directly importing products from foreign producers and distributors is complicated and costly for local department stores. The annual interest rate for credit needed to purchase products is 65-70%. Also, a high value-added tax (VAT) for imported products, excise and customs duties will add an additional 40% to the cost of a product.

Establishment of joint ventures with foreign trading companies is an alternative to direct purchasing. A foreign partner is required to supply the equipment and products, and to provide appropriate training for the local staff. However, the current share of products sold through joint ventures between Ukrainian department stores and foreign suppliers is very small (only 2-3%).

The sheer geographic size of Ukraine and its relatively high level of population dispersion (only about 10% of Ukraine's population lives in the three largest cities) make establishing a viable, reliable distribution network of great importance. Major U.S. companies such as Coca-Cola, Kraft-Jacobs-Suchard, Mars, PepsiCo, Procter & Gamble, and SC Johnson (Johnson Wax and Tambrands) have developed strong sales and service networks in Ukraine, which will ultimately strengthen their market-share potential. While some of the larger firms use their own internal customs clearance and distribution networks, several smaller companies use freight forwarders for distributing products. In addition, indigenous Ukrainian food manufacturers, such as Svitoch (confectionery), Obolon (brewery), Slavutych (brewery), and Chumak (a Ukrainian-Swedish vegetable cannery), are developing excellent widespread distribution networks.

In exporting directly from the United States to Ukraine, the least expensive and most reliable means of transport is by sea, through 18 marine ports in Ukraine, including Odessa, Illichevsk, and Mariupol. Well-known shippers such as SeaLand (U.S.) and Maersk (Denmark) have operations in Ukraine, with onward distribution throughout Ukraine.

Rail is another cheap, but less reliable method of shipping products throughout Ukraine. Rail traffic has fallen substantially since Ukrainian independence and minimal backups at crossing points make rail transport an interesting alternative to other forms of transport. Press reports claim that Maersk plans to open rail cargo service to all points in Ukraine in the near future. Nearly 23,000 kilometers of railway connect Ukraine with Poland, Slovakia, and Hungary, as well as with eastern and northern points of the NIS.

The most popular, efficient, and costly means of transporting goods within Ukraine is by overland truck. Ukrtrans (Ukrainian) and Corstjens (Netherlands) provide service to a number of commercial and diplomatic entities in Ukraine, although price is a factor that U.S. companies should consider. Due to poor road conditions and security issues throughout Ukraine, trucked cargo is priced by the kilometer rather than by weight. Ukraine, which is the size of Texas, therefore presents a fairly costly shipping scenario.

In the absence of reliable credit histories and business background reports, common sense is the main guide to developing a strong distribution and sales channel in Ukraine. U.S. companies can utilize regional distribution networks with contacts throughout the country and, more importantly, these on-the-ground entities can troubleshoot the myriad of obstacles that characterize trade in this emerging and challenging market. The Commercial Service offers a very cost-effective Agent/Distributor Service, which screens and identifies up to six potential distributors of U.S.-made goods and services.

## **B. Use of Agents and Distributors; Finding a Partner**

As in any foreign country, a local partner or representative can provide valuable insight and commercial intelligence that might otherwise be missed by the U.S. businessperson. A local representative can be especially helpful in newly emerging markets, where a strong business information network has yet to develop. However, before entering into a distributorship or agent agreement, U.S. companies are advised to keep in mind the following points:

§ While the extent of information on Ukrainian companies has improved slightly, there is still a significant dearth of background data and credit histories on potential Ukrainian distributors. This presents the greatest obstacle to finding reliable, competent distributors. In order to obtain a due diligence report on a potential Ukrainian partner, a U.S. company is advised to contact either a law firm or use the services of the Dun&Bradstreet representative in Ukraine:

Avesta - Ukraine  
25 Kotelnikova St., of. 102, Kyiv 03115, Ukraine  
Tel: (380-44) 452-9962  
Fax: (380-44) 450-7907  
e-mail: [AvestaInfo@akcecc.kiev.ua](mailto:AvestaInfo@akcecc.kiev.ua)  
<http://avesta.in.net.ua>

To find a potential partner, U.S. companies may also wish to use the U.S. Embassy's Commercial Service programs: the International Partner Search (IPS) and Gold Key Service (GKS).

§ The Embassy strongly advises that all U.S. companies consider legal counsel before and while doing business in Ukraine. Given the tenuous commercial environment and weak legal infrastructure, it is essential to obtain solid legal advice in structuring your company's investment. Furthermore, it is important to keep up with the ever-changing laws and regulations. Legal counsel can provide general advice on fluctuations in the commercial environment in Ukraine and prevent disputes from emerging between partners in the future. Ukrainian laws and regulations are vague and open to considerable leeway in interpretation, providing ample corruption opportunities for officials at every bureaucratic level. U.S. businessmen are advised that partnership with a Ukrainian company is a challenge that is beyond the constant control of the U.S. partner and his legal advisors.

§ When drafting a contract on partnership with a Ukrainian company, a U.S. investor has to consider including an anti-bribery provision. According to the OECD Convention, which came into force in February 1999, "foreign public officials", including all branches of government, international organizations, state enterprises, political parties and candidates, are subject to anti-bribery prohibitions. In addition, paying unusually high commissions to a distributor, hiring a representative who is a relative of a local government official, other improper advantages and improper accounting practices are subject to criminal and civil liability under anti-bribery legislation of the United States.

§ It is typical for Ukrainian companies to seek to establish long-term business relations on consignment or on an equal investment sharing basis. U.S. exporters are advised to start with small sales and full pre-payment or letter of credit terms. U.S. exporters should be cautious about any balance payments, due to constantly changing rules on local banking procedures.

§ Look for regional projection: Kyiv is not the only hub of trade in Ukraine. Look for distributors that have nationwide capabilities, including the cities of Lviv, Odessa, Zaporizhzhya, Dnipropetrovsk, Donetsk, and Kharkiv. These regions are considered important industrial centers of Ukraine and are densely populated. Due to significant distance from foreign borders, demand for various kinds of products in the remote oblasts is not satisfied. Local prices are higher than those in the central and western oblasts of Ukraine. When entering into a distribution contract, U.S. exporters are advised to consider the advantages of selling products to major industrial centers rather than focusing only on a relatively satisfied Kyiv market.

### **C. Franchising**

Franchising is not widespread in Ukraine. Western investments in Ukraine with franchising potential (i.e. McDonald's, Coca-Cola) are currently corporately owned, and very few Ukrainian businesses have recognized the potential for franchising. McDonald's has dominated the fast-food sector in Ukraine, but there are also other successful examples of franchising projects to be found, such as Express Personnel Services, Xerox copy centers, Kodak photo developing centers in Kyiv, Baskin Robbins and Dunkin Donuts in Kharkiv. In October 1997, the USAID Mission in Ukraine initiated a

franchise development project managed and provided by SIBLEY International. Several pilot projects were selected including medical services, home repair/renovation outlets, wholesale and retail food distribution, and consumer electronics. The assistance has resulted in the establishment of eight franchises.

The Ukrainian market offers many opportunities for international franchising. However, as an entrepreneurial activity, franchising encounters the same general barriers that impede the establishment of small and medium businesses. These include taxation problems, high credit rates, crisis of nonpayment, unstable legislation, and over-zealous inspections of entrepreneurial activity by the state. The investment climate remains the major obstacle for franchises in Ukraine.

#### **D. Direct Marketing**

Direct marketing is a concept new to the Ukrainian market. One of the major issues that has impeded the development of direct marketing in Ukraine is the use of cash for nearly all transactions. Moreover, promotional materials have to be very detailed and in the Ukrainian language. Presently, there is a notable absence of vending machines, mail-order houses, specialty or chain stores, and direct retailing. Marketing is usually done through large department stores, kiosks, or marketplaces.

Marketing of industrial goods and commodities is done largely by distributor warehouses, exhibitions, trade shows, and mail catalogs sent (with price lists) to the end-user. The industrial goods market is, for the most part, dependent on foreign credits and can involve barter transactions. Leasing and/or the contribution of equipment to statutory funds of a joint venture can also be effective marketing techniques.

#### **E. Joint Ventures / Licensing**

##### **Joint Ventures:**

Joint ventures, including those between Ukrainian and Western partners, became popular in Ukraine immediately after the start of the transformation to a market economy. They were viewed as a compromise between the customary form of business oriented towards national ownership and the necessity to attract foreign investors and learn foreign business practices. A number of privileges and benefits, including tax exemptions, were offered as incentives to establish joint ventures.

In Ukraine's legislation the term "joint venture" has two meanings:

- 1) Joint ventures are enterprises established primarily to pool assets of different owners and are of mixed-type ownership;
- 2) Joint ventures are based on the common capital of Ukrainian and foreign business entities, as well as on joint management and common distribution of results and risks.

In practice, however, the term is used for new business entities set up by Ukrainian and foreign founders. This may come about as a result of a foreign investor's interest in a Ukrainian enterprise (taking possession of stocks and part of its authorized capital).



The availability of a foreign investor is a prerequisite for the founding and functioning of a joint venture. Definite peculiarities exist with the possible participation of state-owned enterprises in creating joint ventures. According to existing laws in Ukraine, the State Property Fund of Ukraine and agencies to which this fund delegates its authority are entitled to establish joint ventures on behalf of state-owned enterprises.

In terms of forms of joint ventures, Ukrainian law sets no limitations - they are free to be established as limited corporations, stock companies, or other associations. State registration is mandatory when establishing a joint venture. When registered, an enterprise is entered in the State Register of Enterprises of Ukraine.

A joint venture has all the rights of a legal entity as soon as it has its state registration. Joint ventures may perform business activities of any kind, except for those prohibited by law. Licensing is mandatory for certain kinds of activity (insurance, audit activities, law, veterinary practice, and exploring and exploiting natural resources).

Another specific feature of the joint venture's legal status should be noted: the special regime of protecting founder rights and interests, which are to be determined at the legislative level. This legislation stipulates that foreign investments in Ukraine are not to be nationalized, and state administrations have no right to requisition foreign investments, except for undertaking rescue measures in the case of natural disasters, accidents, epidemics, or widespread animal diseases. Foreign investors have the right to reimbursement for losses due to illegal actions, inaction by authoritative bodies or their officials, and inadequate execution of their statutory duties with regard to a foreign investor. In the event of terminating their activity, foreign investor/founders may have their investment repaid in physical assets or in currency in the actual amount of the investment, as well as incomes obtained from investment in monetary or commodity form in accordance with the actual market value at the time of investment activity termination.

#### **Foreign Investment Legislation:**

Ukrainian foreign investment legislation has changed with disturbing frequency since Ukraine's independence in 1991 (usually not in favor of foreign investors). Taxation is a good example. On March 19, 1996, the Parliament adopted a new law on the foreign investment regime. This law put an end to the previous automatic five-year tax exemption. Under the old foreign investment law, any company with \$50,000 in registered "qualified foreign investment" was guaranteed tax breaks and was ensured they would not change for 10 years. Article 27 of the new law voided previous investment laws, including:

- "Law on Foreign Investments," dated March 13, 1992;
- Cabinet Resolution on a Foreign Investment Regime, dated May 20, 1993;
- "Law on a State Program for Attracting Foreign Investments," dated December 17, 1993.

On October 23, 1997, the "Law on Company Profit Tax" canceled the five-year tax exemption for all companies registered after this date. Meanwhile, top Ukrainian government officials assured foreign investors that there were no more automatic tax exemptions and that Ukraine would sign special agreements providing large foreign investors with tax and other privileges on a case-by-case basis.

Under the current foreign investment law:

- 1) Registration of foreign investment with local authorities is required;
- 2) Foreign investment includes:
  - creating joint ventures;
  - acquiring stock in existing enterprises;
  - creating wholly-owned foreign subsidiaries;
  - acquiring real estate such as apartments, houses, land use rights;
  - acquiring property rights by purchasing securities and stock of enterprises with such property rights;
- 3) Previous legislation gave foreign investors special privileges in the market. The 10-year investment guarantee was unilaterally revoked by Ukraine's Parliament on October 23, 1997, in direct violation of this law;
- 4) Foreign investors are guaranteed unhindered and immediate rights to repatriate their profits abroad, but only after the investor pays a 15% repatriation tax and other mandatory payments in Ukraine;
- 5) Any in-kind foreign contributions imported for a company's statutory fund are exempt from customs duties. All import duties must be paid if an enterprise sells, transfers or otherwise alienates the contributed property for any reason, including the termination of activities;
- 6) Foreign investors are granted general protection of Ukrainian intellectual property rights, and the right to decide whether to seek patent registrations in Ukraine or abroad.

It has become apparent to investors that the country's foreign investment legislation is sorely lacking in predictability. Recent amendments to legislation clearly demonstrate that guarantees to foreign investors can be retroactively revoked. The law extends rather minimal favorable treatment and guarantees to all types of foreign investors, including physical and legal entities.

### **Licensing**

The Law of Ukraine "On Changes in the Law of Ukraine On Entrepreneurship" establishes permitting and licensing provisions and restrictions. Due to the long list of activities subject to permitting and licensing, the large number of government agencies involved in the licensing process, and obscure and contradictory instructions, this is viewed as one more barrier in the way of foreign investment - the typical business has to secure roughly a dozen licenses. Efforts are being made to reduce the number of licenses required. The draft legislation "On Licensing of Certain Kinds of Business Activity" was approved by Parliament on June 1, 2000 and signed by the President a month later. The document outlines the licensing procedure, including reasons for revocation of licenses. According to the document, the Cabinet of Ministers is to create a special permitting and licensing authority, determine the fee itself (which will go into the state budget), and define procedures for payment. The duration of the licensing procedure is supposed to be reduced from 30 days to 10 days. However, the list of activities subject to permitting and licensing remains virtually unchanged (with only legal practice removed from the list).

### **F. Steps to Establishing an Office**

Shares in a Ukrainian company can generally be issued or sold to non-Ukrainian residents without restriction. There is no limitation on the percentage of ownership of a foreign investor in most types of Ukrainian companies. Preferred forms of foreign

investment operations in Ukraine are: a joint stock company, limited liability company, wholly-owned subsidiary, and representative office. For regulatory and taxation purposes, with some exceptions, representative offices are treated similarly to independent legal entities. Some industries, including banks and insurance companies, are more heavily regulated, and must be established in compliance with specific requirements.

It is possible for a foreign company to establish a representative office in Ukraine. A representative office can carry out marketing, promotional, and other auxiliary and preparatory functions on behalf of the company. The establishment of a wholly-owned company in Ukraine would be recommended if the company intends to carry out manufacturing or other significant local commercial activities. There is no prohibition for a foreign legal entity to have both a representative office and to establish a wholly-owned subsidiary at the same time.

The most widely used forms of legal entities in Ukraine are the joint stock company (JSC) and the limited liability company (LLC), with Ukrainian and foreign participants. In choosing between an LLC and JSC, it is generally recommended that an LLC be used since it is easier to manage than a JSC.

A Joint Stock Company is a company in which the shareholders are only liable for the obligations of the entity to the extent of their capital contributions. There are two types of JSCs: public and closed. A public JSC is established via a public offering and subscription of shares; a closed JSC's shares are distributed privately among the founding shareholders. At least two founding shareholders are necessary to create a JSC. They are free to determine among themselves the share distribution that each will have in the legal entity. Shares issued by both closed and public JSCs must be registered with the State Commission of Securities and Stock Market. There are two levels of taxation: the JSC is taxed on its profits and the shareholders are then taxed when dividends are distributed.

In a Limited Liability Company, the stakeholders as with a JSC are only liable to the extent of their capital contributions; ownership interests are expressed in terms of contractual rights that arise out of the foundation documents. A transfer of ownership rights is accomplished through an assignment of contractual rights. Interests in an LLC are not deemed to be "securities" and, therefore, are not subject to registration with the State Commission of Securities and Stock Market. As with a JSC, there are two levels of taxation for an LLC.

Depending on the needs of your company and your long-term plans, any one of these three legal forms for creating a legal entity in Ukraine (a representative office, a 100% wholly-owned subsidiary, and a joint venture, either as a stock company or limited liability company) may be suitable. Generally, foreign investors engaged in business activity in Ukraine must register in Ukraine as either a resident company or a permanent representative office within one month of beginning any such activity.

**Registration:**

Registration of representative offices of foreign companies is handled by the Ministry of Economy (MOE) of Ukraine, and is done within 60 days of submission of all required documents and upon payment of a \$2,500 fee.

For registration of a representative office, a foreign business must submit the following documents (translated into Ukrainian):

1. a company charter (joint ventures need a foundation agreement);
2. an application for the registration of a representative office containing:
  - an extract from the trade or banking register of the country in which the foreign business entity has its office officially registered;
  - a proxy supporting the individual who will represent the company in Ukraine with references to the opening of bank accounts;
  - a power of attorney from the regional office where the company is officially registered confirming that the company is entitled to certain activities and operations.

The above-mentioned documents should be notarized in the country in which the company is registered, translated, and duly certified at a Ukrainian consulate abroad, unless otherwise stipulated in the international agreements of Ukraine.

Within a month of obtaining a registration certificate, a representative office must register with the local tax inspectors.

All business entities with legal entity status (resident or foreign) shall be officially registered by the executive committee of the city, city district, regional councils, Kyiv or Sevastopol district state administrations (hereinafter referred to as official registration authorities) at the place of residence of the given business entity, unless otherwise provided by law.

The following documents should be produced for registration:

- 1) constituent agreement (when there are two or more owners);
- 2) the statute (company charter), if applicable;
- 3) registration card, serving as an application for official registration;
- 4) document certifying payment of the official registration fee;
- 5) certificate of prepayment to the statutory capital fund in the amount required by law (50% of investment capital for a JSC, and 30% for an LLC). If an owner is a foreign legal entity, an extract from the trade register, bank or court register must be produced to certify registration of the investor in the country of origin.

These documents must be duly approved according to the law of the country of issue, translated into Ukrainian and legalized in a consulate of Ukraine. They should also be approved in the Embassy of the corresponding country in Ukraine and legalized in the Ministry of Foreign Affairs of Ukraine.

After registration, the company must be registered with the state tax and statistics authorities, and can appoint a board of directors who open the company's bank accounts.

## **G. Selling Factors / Techniques**

Prior to considering the Ukrainian market, any U.S. company should be aware of two contradictory attitudes deeply ingrained in the mind of Ukrainian customers. The first is an enthusiasm for Western products, and the second is the belief that local products are much more reliable. This is in part due to the flood of imported goods of dubious origin

and poor quality – many of which are falsely marketed under well-known brand names. Launched in 1997, a “local producer protection” policy produced a media campaign whose underlying idea was “don’t trust imported products.” During the past few years, locally produced food products and beverages have gained a strong position in the Ukrainian market. An inner conviction about the reliability of local products and a predilection for familiar goods play a decisive role in consumer behavior.

Broad promotional advertising is necessary to acquaint the average Ukrainian with unfamiliar brand names. Consumer confidence in a particular product is boosted by a description, list of ingredients, warranty or maintenance guarantee. Ukrainian consumers are turned off by products with Western brand names that are manufactured in Asia or other former Socialist countries (other than Ukraine).

One of the key factors influencing the marketing of U.S. products in Ukraine is the right choice of an agent or distributor. If a U.S. company intends to have a long-term relationship with its Ukrainian partner, it is wise to get to know the business partner and their business as much as possible from the onset. Coordination and agreement regarding sales policies and pricing is absolutely necessary. Local businesses are oriented towards high profitability, which can seriously affect the marketability of U.S. products. U.S. exporters should be aware that their Ukrainian partners have to deal with a number of indirect duties and commercial risks that will influence their pricing policy. Generally speaking, the sales policies of U.S. companies interested in the Ukrainian market should take into account the unique features and challenges of this developing market. Rather than try and apply sales policies used in Western and Central Europe (or even Russia), a flexible and cooperative policy, oriented towards a long-term presence in the market, is much more likely to bring expected results.

Problems have arisen for U.S. companies that operate through their European subsidiaries. In many instances, higher European prices decrease the price competitiveness of U.S. products. Additionally, working through European subsidiaries may be perceived by Ukrainian businesses as an additional layer of bureaucracy. Ideally, a U.S. company interested in conducting a successful business operation in Ukraine should have an in-country representative and an established network of distributors and sellers.

Offering a flexible credit policy is important for small-scale Ukrainian companies, which do not have access to large amounts of money for the promotion of a new product and the training of personnel. A local company's access to loans and credit is limited by high interest rates and short repayment terms demanded by local banks.

## **H. Advertising and Trade Promotion**

In the days of the former Soviet Union, foreign visitors were amused by the direct simplicity of Soviet “advertising”; shops were distinguished by unlit signs stating “milk,” “bread,” “meat,” “ice cream,” etc. As there was no formal product competition or market system to create incentives for quality production and purchase, there was no need to advertise one item versus the other. This changed soon after Ukraine gained independence in 1991 and presented opportunities for U.S. companies seeking to advertise in the Ukrainian market. Today, there are approximately 300 advertising

agencies in Ukraine, many of which carry out the range of services Western companies are accustomed to.

Television advertising is on the rise and is considered one of the best means of advertising in Ukraine. According to Socis Gallup monitoring, the top five TV channels in advertising terms are: Inter, 1+1, ICTV, UT-1 (the central state channel), and STB. Commercial radio in Ukraine is developing quickly and is also widely used for advertising. Together radio and TV make up about 64% of the national advertising market.

Newspaper advertising accounts for another 14 percent. The major Ukrainian papers/journals which may be used for advertising include: Den/Day (daily); Fakty/Facts (daily); Holos Ukrayiny/Voice of Ukraine (daily); Kiyevskiye Vedomosti/Kyiv News (daily); Vseukrainiskiye Vedomosti/Ukrainian News (semi-weekly); Silski Visti/Countryside News (daily); Uryadovyy Kuryer/Government Courier (daily); Vechirnyy Kyiv/Evening Kyiv (daily); Delovaya Ukraina/Business Ukraine (semi-weekly); Biznes/Business (weekly); Halytski Kontrakty/Halytski Contracts (weekly); Posrednyk/ (weekly); Kapital (semi-monthly); Kompan&on (semi-monthly); Zakon i Biznes/Law & Business (weekly); Zerkalo Nedeli/Mirror of the Week (weekly); RIO/advertising and information digest (weekly); Telenedelia/TV Week (weekly); Express-Obyava/advertising and announcements (semi-weekly); Aviso/advertising and announcements (semi-weekly); Natali/women's magazine (semi-monthly). The major English-language papers/journals are: Eastern Economist (daily/weekly); Intelnews (daily/weekly); Kyiv Post (weekly).

Outdoor advertising has proven effective, and its popularity is constantly growing. It accounts for 22% of advertising expenditure in Ukraine.

The top ten advertisers remain international companies (Philip Morris, Reemtsma, UMC, Rothmans, Unilever, Sport Systems, Coca-Cola, Nestle, RJR, Papastratos). The major categories of goods in terms of market share for outdoor advertising are tobacco & accessories, communications, alcoholic beverages, financial, soft/hot drinks, and sport equipment. Among the regions of Ukraine, the largest budgets for advertising are in the Kyiv, Dnipropetrovsk, Odessa, Kharkiv, Donetsk, and Lviv regions. One of the largest outdoor advertising companies in Ukraine, Bigboard (a Czech-Ukrainian joint venture formed early in 1993,) was the first private company to sell outdoor space – mainly billboards - for advertising in Ukraine. Despite the entry of other competitors, Bigboard remains the largest (with over 1,250 billboards in Ukraine) with a market share of about 30%. Outdoor advertising companies must obtain licenses from local authorities and these are issued for a period from six months to five years. There is an association of outdoor advertising companies in Ukraine that lobbies on behalf of the industry.

The economic crisis in the second half of 1998 resulted in 30% shrinkage of the advertising market in 1999. In that year, the market was worth US\$ 187 million, compared with US\$ 267 million in 1998. The economic crisis had some positive after-effects: small operators were eliminated, and as a result agencies were concentrated and the quality of services improved. In the year 2000, the advertising budgets were again on the rise, and in 2001 they reached the 1998 level and constituted about US\$ 260 million.

Consumer education, an important part of western advertising approaches, is key in conveying the message to the consumer. Ukrainians, cautious and cynical by nature,

are skeptical of flashy advertisements, so "word of mouth" and establishing a "street reputation" for one's product or service are critical for success in this developing market. Many consumers in Ukraine are unaware of competitive pricing and quality assurance.

The demand for public relations services in Ukraine is growing. PR agencies provide the following advertising services for their clients: organizing media-relations (i.e. press-conferences, press-tours, mass media advertising); developing relations with journalists and editors; organizing strategy formulation (i.e. creating special events, presentations, social events, VIP-parties, shows); lobbying (i.e. crisis management - rumors management); speechwriting, etc. One of the most successful PR companies is the U.S. company TWG/Burson-Marsteller. PR agencies in Ukraine have their own industry-lobbying association.

The law that regulates advertising in Ukraine is the "Law on Advertising" #270/96 of July 3, 1996. It outlines copyrights and trademark identification, and sets guidelines for advertising in the print and electronic media. It regulates the basic procedure of production, placement and distribution. Alcohol and tobacco product advertising is prohibited on television, and may not be placed on the first or last pages of newspapers or magazines. Also, advertisements cannot feature the actual use of alcohol or tobacco products. Draft legislation "On the Changes to the Law on Advertising" has been before Parliament since 2000 aimed to simplify the process of obtaining official permission for advertising. There is also a further draft law ("On Political Advertising") under consideration.

Under most circumstances, advertising in Ukraine has to be in the Ukrainian language. However, advertisements in media primarily printed or broadcast in a different language are exempt. Trademarks registered in a foreign language or alphabet are also permitted.

The advertising regulatory authorities are: the State Antimonopoly Committee of Ukraine; the State Committee on Information Policy, TV and Radio Broadcasting; the National Council of Ukraine on Radio and TV Transmission; and the State Committee on Standardization, Metrology and Certification. These agencies are responsible for the protection of businesses and individuals with respect to advertising, and may initiate actions against improper advertising (advertisements that are misleading, or capable of causing damage to persons or the state due to inaccuracy, as well as advertising of certain products restricted under advertising legislation.)

On request, CS Kyiv can provide an extensive list of advertising agencies, as well as print and television media operating in Ukraine.

## **I. Product Pricing**

High import tariffs, VAT taxes, and the small number of suppliers of Western-made products in the Ukrainian market keep prices at a high level. To date, the Ukrainian market has been flooded with cheap, low-quality goods from Turkey, China, the Middle East, and former Socialist-bloc countries. However, despite the higher prices, there is a growing tendency for Ukrainians to buy quality, Western-made products.

The majority of suppliers of Western-made products are able to keep prices high because they are oriented towards the "elite" consumers – foreign residents and the

recently emerged nouveau riche. This quest for high profitability can seriously affect the marketability of U.S. products.

When establishing prices, exporters should consider the purchasing power of the average Ukrainian consumer. According to the Ministry of Economics, at the beginning of 1999, the overall volume of sales of general consumer products decreased 8.6 percent. Meanwhile, the average Ukrainian per capita monthly wage has decreased significantly, from \$62.7 in 1998 to \$45 in July 2000. However, there is a fast-growing segment of the population whose disposable income is rising due to the increase in entrepreneurial activities.

When developing pricing policies, U.S. suppliers should also note the regional and age differences among end-users. The demand for Western-made products is far greater among the younger generation, with the sharpest contrasts seen between the under-45 and over-45 age groups. The widest differences are in the purchase of vehicles, personal care products, candy, jewelry, household goods, and electronics. The correlation between education level and product demand is not as evident as in Western economies, as unfortunately many educated consumers are part of the low income population.

It is important to note the regional variations in demand and price of Western-made consumer goods, although these differences are becoming less pronounced. While the Kyiv area is typically well-supplied with various products, remote areas are not. Kharkiv, Dnipropetrovsk, Donetsk, Lviv, and Zaporizhzhya offer good potential for foreign exporters interested in expanding their operations in Ukraine.

The Cabinet of Ministers of Ukraine has price-setting authority, and determines lists of products, goods, and services whose costs are subject to approval by specific divisions of the government. Government-fixed and regulated prices and tariffs may change as a result of changes in production and sale conditions, regardless of the manufacturer's performance.

When conducting export and import transactions directly or via foreign economic intermediaries, contractual (foreign trade) prices formed in accordance with world market costs and conditions are used in settlements with foreign partners.

Enterprises, organizations, and individuals have the right to turn to arbitration to contest price violations on the part of State bodies, enterprises, organizations, co-operatives, and other legal entities and physical persons.

Prices in Ukraine typically include a 20% VAT and other taxes. Retail prices include a 20% VAT, while wholesale trade prices usually do not, citing it separately.

## **J. Sales Service / Customer Support**

To succeed in the Ukrainian market, companies should pay attention to sales service and customer support. For one, the Ukrainian market is far from saturated; it is still getting started, thus presenting a unique opportunity for U.S. companies. With some 50 million people, Ukraine has the potential to become one of Europe's most important markets in the future. Because of Ukraine's size, there is plenty of room for competing



companies with competing strategies. The demand for quality products and customer support is becoming stronger, which has driven companies to emphasize quality, after-sale service, installment payments, and other sales service practices.

A key element to succeeding in the Ukrainian market is the establishment of a network of after-sale support centers for goods and equipment. Maintenance centers are especially important for a variety of industries, including household appliances, telecommunications equipment, consumer goods, and vehicles. In February 1999, the Cabinet of Ministers adopted a decree on after-sale service and maintenance of household appliances. According to this legislation, all products have to carry certification of origin, price, after-sale obligations of the manufacturer, rules of use, the manufacturer's address, and information on certification in Ukraine.

In February 1999, the Cabinet of Ministers amended the rules on installment payments in order to increase consumer demand for products of long-term use.

Ukraine has passed a law on the protection of consumer rights, and plans to create a national customer information system on poor-quality goods, move towards membership in the European information system, create an independent quality control laboratory, and introduce EU standards for consumer goods. In June 1999, an international conference on "Modern policies for the protection of consumer rights in Ukraine and other European countries" was held in Kyiv under the aegis of TACIS. The participants, who included representatives of over 40 countries, leading consumer goods producers, and donor organizations, agreed on establishing an intergovernmental commission on consumer rights protection.

A strong distribution system and a viable intermediary service industry are only developing in Ukraine. Western companies are better off dealing directly with large Ukrainian wholesalers, and avoiding middlemen and intermediaries.

## **K. Selling to the Government**

Large government procurements represent export opportunities for U.S. companies. However, U.S. firms should keep two things in mind. First, the Ukrainian government lacks internal resources for large purchases, and companies are advised to track the tender announcements of the World Bank and the European Bank for Reconstruction and Development (EBRD), which have initiated numerous programs to assist Ukraine in its transition to a market economy. Second, reaching the "point of decision" in the Ukrainian bureaucracy can be a daunting task.

Major international financial institutions, such as the World Bank and the EBRD, have organized tenders for the procurement of goods and services to be used by Ukrainian government agencies. The presence of a Western tender organizer often makes selling to the government a more transparent practice, providing for published deadlines, proposal criteria, and more importantly, Western oversight in making final procurement decisions.

Government procurements are conducted on the basis of the Law "On Procurement of Goods, Works and Services Using State Funds" #1490-3 dated February 22, 2000. Under this law, all government procurements of goods and services

above EUR 40,000 and procurements of works above EUR 40,000 are conducted through one of the following tender procedures: open tenders, or open tenders with prequalification. Open international tenders must be conducted when the procurement is financed by an entity not resident in Ukraine. The information on government procurements is publicized in the official GOU magazine "Visnyk Derzhavnykh Zakupivel" (State Procurement Bulletin) published by the Ministry of Economy of Ukraine. American company representatives in Ukraine can arrange subscription for this magazine (in Ukrainian or in Russian) at the Ministry of Economy at the following contacts:

Tel: (380-44) 293-9415/3296/1166

Fax: (380-44) 552-4365

E-mail: [vdztender@me.gov.ua](mailto:vdztender@me.gov.ua)

Large procurements are also announced on the Internet web page of the Ministry of Economy at

[www.me.gov.ua](http://www.me.gov.ua).

#### **L. Need for a Local Attorney**

The U.S. Embassy strongly advises that all U.S. companies consider legal counsel before and during business practice in Ukraine. Given the tenuous commercial environment and the weak legal infrastructure, it is essential to obtain solid legal advice in structuring your company's investment. Furthermore, it is of utmost importance to remain up-to-date on the ever-changing laws and regulations. Legal counsel can effectively provide general advice on the fluid commercial environment in Ukraine.

The Commercial Service, in its popular "Directory of Business Contacts," maintains a list of American and Ukrainian lawyers that are involved in international practice. The American Bar Association's Central and East European Law Initiative (Tel/Fax: [380-44] 462-0974 / 0975) is also a useful source of lawyers and information about legal proceedings in Ukraine.

#### **M. Performing Due Diligence / Checking Bona Fides of Banks / Agents / Customers**

Given the difficulties of doing business in Ukraine, it is advisable for a U.S. company to perform its own feasibility study before starting a project in Ukraine. Numerous opportunities in Ukraine carry a significant level of risk. The first step in undertaking a project in Ukraine is knowledge - knowledge of costs, risks, and returns. Two principal risk factors are involved: commercial and legal. Most of the risks are legal, permission related, and practical. What constitutes conforming to code in the U.S. does not necessarily mean the same in Ukraine. The nuances and various possible interpretations of Ukrainian laws, rules, and regulations make it almost impossible for one person to understand all the possible ramifications. In order for a contract to be truly enforceable in Ukraine one should have a lawyer, an accountant, and an interpreter even if you are fluent in Ukrainian or Russian.

Official State statistics are often unreliable, and understanding market dynamics in Ukraine comes down to informed opinion. Local surveys and "experts" should be treated with some caution, as their objectivity can tend to be blurred by vested interests.

There is no viable system for checking the financial status of a Ukrainian partner, and information on bona fides of potential Ukrainian partners should be treated with care. It is not a practice in Ukraine for banks to provide information on the financial status of their clients, and there is no nationwide service for registering enterprises of doubtful solvency.

The due diligence process performed by the Dun&Bradstreet representatives in Ukraine, or teams headed by Western accounting/law firms and investment advisors with a permanent local presence, will give investors a better understanding of the target company and will help in the design of an appropriate exit strategy.

Never put your fate in the hands of the unpredictable Ukrainian courts. Recent court decisions, rulings, and regulations have shown that unless contracts in Ukraine contain very specific detail they may be totally unenforceable. The letter of a contract is more important than its intent, which like "industry standards" or other such concepts is not readily recognized in Ukraine. Only the written word and the specific subject, as defined by law, have meaning.

In entering into a business partnership with the State, it is highly recommended that you ensure the State has put all of its decision-making powers in the hands of an independent manager.

#### **A. Best Prospects for Non-Agricultural Goods and Services**

The following is a list of FCS, Kyiv commercial specialists and the major sectors of their responsibilities:

Ruben Beliaev	Information Technologies (Telecommunications, Computers)
Yuriy Prikhodko	Travel & Tourism, Consumer Goods
Victoria Sergeeva	Energy, Oil & Gas
Olena Stephanska	Banking & Finance, Health Care, Environmental Technologies
Olexandr Zavhorodniy	Transportation, Heavy Industry, Chemicals, Building & Construction
Irina Loseva	Agricultural Machinery & Equipment, Food Processing

All figures below are provided in \$ millions, unless otherwise noted.  
Exchange rates (effective June 30 each year):

1997	\$1.00 = UAH 1.86
1998	\$1.00 = UAH 2.06
1999	\$1.00 = UAH 3.95
2000	\$1.00 = UAH 5.44
2001	\$1.00 = UAH 5.38

#### **1. Agricultural Chemicals (AGC)**

The market for pesticides in Ukraine is fairly large. The overall annual shortage in supply is currently estimated at 35,000 tons, needed to cover an area of 19 million hectares. Over 30% of the annual harvest is lost due to controllable insects, fungi and weeds.

The agricultural chemicals market is still in a state of flux, and offers opportunities for U.S. producers of new low-chemical, low-risk products. The estimated annual size of the pesticides market in Ukraine is \$200-225 million.

Local pesticide and agricultural chemical production meets only 20% of Ukraine's annual needs, and even this limited production depends upon imported raw materials. Local production of pesticides utilizing local compounds is expected to meet only one fourth of the total demand this year. Ukraine will need to rely on imported chemical compounds to meet the demand for pesticides.

Currently only seven types of plant protection substances are produced by local plants, including polycarbapine, polychome, copper vitriol, sulfur-bearing substances, copper oxychloride, bromine methyl, and dinitro-o-cresol. However, the agro-industrial complex requires at the least 12 types of fungicides and seed sterilizers, 22 types of insecticides, and 24 types of herbicides.

Ukrainian major enterprises producing plant protection substances are: Pervomaysk-based KhimProm (Kharkiv oblast), Kyiv-based OJSC Radical, Razdolye-based Sirka (Lviv oblast), Odessa-based OJSC Olymp-Krug, Saky State Chemical Plant (Crimea), Rubizhne-based OJSC Krasytel (Luhansk oblast), and Zaporizhzhya-based Chemical-Recovery Carbonizing Plant.

It is necessary for U.S. pesticide manufacturers to appoint a reliable and well-informed representative or distributor with a large distribution network. There are approximately ten large distributors importing pesticides, the largest being "AgroKhimCenter", "UkrAgroBiznes" and "Raiz-Invest". These companies have well-developed regional representation networks.

Competition within the agro-chemical market in Ukraine is complex, due to the presence of many foreign companies distributing products directly and through their local distributors. U.S.-made pesticides have an excellent reputation for efficiency and environmental friendliness. U.S. companies (and their European subsidiaries) have a strong competitive position in the herbicide, insecticide and seed disinfectant markets. However, fungicides are still dominated by Swiss and Ukrainian companies.

Currently, about 30 companies supply their products to the Ukrainian market, including such well-known giants as the Swiss corporation Novartis; German companies AgrEvo, Bayer and BASF; French Ron-Poulainc; British Zeneca and Uniroyal Chemical; Spanish Inagrossa; and Takeda, Nippon Soda, Nihon Noyaku, Nissan Chemical, Sumitomo Chemical and Sankyo from Japan. Cyanamid Overseas Corporation, Dow Elanco, Du Pont, FMC, Monsanto, and Cargill represent American products at the Ukrainian pesticide and agricultural chemical market.

The best potential for U.S. firms wishing to enter the market and those already operating in Ukraine is in pesticides that combat weeds, plant diseases and insects. Since agricultural producers cannot grow decent yields of crops without the use of pesticides, it

can be projected that the pesticide market (i.e. for herbicides and insecticides) will continue to grow.

## **2. Agricultural Machinery and Equipment (AGM)**

Distributors of domestic and foreign agricultural machinery have been operating in Ukraine since 1991. Most sell machinery through a lease or credit arrangement in exchange for agricultural commodities. Major private distributors (including Raiz Invest, Ukragrobusiness, Agroinkom, Hrono and Dako) supply both Ukrainian and foreign machinery to many regions of Ukraine, and they also deal in used machinery.

The end-users of agricultural machinery are collective and state farms, private farms, distributors, and machinery-tractor stations (MTS). MTS were set up in each region of Ukraine under a government-sponsored system of state leasing-fund financing. There are now 833 stations, of which 63 are state-owned. MTS distribute machines to farms, providing maintenance and repair services throughout the cycle of cultivation, plowing and harvesting of crops. The state-owned stations distribute only locally produced machinery and equipment or imported machines purchased under a government sovereign guarantee. Farms pay either in cash or by bartering agricultural commodities, with a payment term of three to five years.

According to industry insiders from both local and U.S. companies operating in Ukraine, the agricultural market is not easy to access. Financing is the most critical issue for end-users, but there exist many other barriers such as certification, licensing and taxation. Machinery must be certified in Ukraine: certificates issued abroad are not accepted. The procedure is complicated and bureaucratic, requiring documentation in Ukrainian, and can be very costly depending on the type of machinery and the status of the exporting country. The value-added tax (VAT) levied is 20%, payable at the time of customs clearance. High custom-duties, taxation, and dealer mark-ups usually make imported equipment too expensive for local customers.

There are about 30 manufacturers of agricultural machinery in Ukraine, including two grain harvester producing plants in Kherson and Alexandra, one corn harvester producing plant in Kherson, six sugar beet harvester producing plants with the major one in Ternopil and three plants manufacturing tractors.

The existing stock of agricultural machinery includes 216 thousand tractors and 49 thousand grain combine harvesters. According to industry spokespeople, current depreciation of agricultural machinery and equipment is equal to 75% of total stock, so the need to replace basic farm machinery is becoming critical. However, the gap between need and ability to purchase is huge.

U.S. agricultural machinery has a good reputation in Ukraine. It is represented here by AGCO Corporation (Massey Ferguson), American Machinery Company (John Deere), Caterpillar, Novagro (Case Corporation). They offer a full range of equipment and parts (including supply of spare parts) for cultivating, growing, harvesting and transporting, as well as equipment for livestock production.

- A. AGCO Corporation has three large Ukrainian distributors: Ekoprod (Donetsk); Lan Invest (Dnipropeetrivsk); and Raiz Agrotechnika. Raiz Agrotechnika has 18

representative offices throughout Ukraine and dealers with repair facilities and parts inventory located in all regions. AGCO Corporation is the only company with a credit line available for Ukrainian customers, requiring a 25% advance payment and extending credits to farms for three years at 20% interest. Funded by USAID under the Citizens' Network for Foreign Affairs (CNFA), AGCO has many projects for supporting and training private farmers.

- B. The American Machinery Company (John Deere sales representative) maintains a network of four regional service centers and nine service points equipped to do repairs indoors and in the field. It also has a training center designed to provide instruction in operation, maintenance, and repair.
- C. Zeppelin Baumaschinen GmbH is the official distributor for Caterpillar. Its representative office is located in Kyiv, with branch offices in Dnipropetrovsk and Odessa, and a service center in Dnipropetrovsk. The company offers caterpillar tractors as well as construction equipment and maintenance products.
- D. In June 1998, Pivdenmash and Case Europe signed an agreement to establish a joint venture to manufacture Case tractors in Ukraine. The registration was completed in December 1999. Using Case parts, Pivdenmash manufactured 100 magnum-type tractors. Case Corporation has an exclusive distributor in Ukraine, Novagro-service, and has established a service network for its customers. In 1997, the company sold 369 Case grain harvesters and 45 Case tractors. In 1998 and 1999, they sold eight grain harvesters, eight plows, and one tractor. Case plans to establish a leasing company to enable more farmers to purchase their equipment on credit.

The best prospect for U.S. companies is to invest in the manufacturing of equipment in Ukraine. Simply exporting agricultural equipment to Ukraine can be costly: the Ukrainian government plans to increase import duties on agricultural machinery, has no plans to purchase equipment under government sovereign guarantee, and will support domestic manufacturing.

Market size data (in \$ millions):

	1997	1998	1999	2000
A. Total market size	425	430	495	N/A
B. Total local production	315	330	360	N/A
C. Total exports	100	100	104	N/A
D. Total imports	180	200	210	N/A
E. Imports from the U.S.	120	150	150	N/A

(The above statistics are unofficial estimates.)

### 3. Airport/Ground Support Equipment (APG)

The modernization of air navigation in Ukraine is a high priority of the government. The current outdated ATC system, inadequate air traffic services, substandard air navigation and communications systems and dilapidated infrastructure in Ukraine have all had a negative impact on the country's ability to attract additional flights, carriers, and air routes. It is estimated that Ukraine is losing millions of dollars annually from under-utilizing its airspace, and through lost overflight charges, landing fees, gate fees, aircraft

servicing charges, etc. This represents a significant cost to the country. Improvements to Ukraine's air traffic control would generate additional revenues that could be used to finance additional investments and improve air services.

The Ukrainian State Air Traffic Service Enterprise (UkSATSE) is the sole entity responsible for the operation of the Ukrainian air navigation system (ANS). In late 1998, the European Bank for Reconstruction and Development provided a \$23 million loan to UkSATSE, based on a sovereign guarantee from the government of Ukraine, for several additional projects as part of its airspace and Air Traffic Control modernization program. UkSATSE will need to import all of the equipment financed under the EBRD loan. Apart from the cost of foreign expertise to supervise the construction work involved, all funds will be allocated to procurement of equipment and spare-parts. The tender will be held during 2001 in five phases. The total potential for U.S. exports is approximately \$25 million, including upgrading of two airport tower facilities, provision of voice communications systems (VCC's), MSSR's, and other ATC systems.

UkSATSE has already modernized four ATC dispatcher centers using local technology and domestically integrated Western ATC equipment. All the ATC systems currently in use in Ukraine are designed and manufactured by a local firm, Aerotekhnika, (tel.: 380(4498) 5-6300, fax: 380(4498) 5-6302). The systems are a blend of Western and local equipment/software, which enables Ukraine air traffic controllers to service and track up to 150 jets simultaneously.

Interested American equipment suppliers and investors are advised to explore business opportunities with UkSATSE. For detailed information, please write/fax Mr. Dmytro Babeychuk, Director UkSATSE (76 a, Povitroflotskiy prospekt, Kyiv, 252151, Ukraine; tel.: 380(44) 230-2649, 212-2386; fax: 230-2312), or track information on the bids listed at [www.ebrd.com](http://www.ebrd.com) under Procurement Opportunities.

Good trade opportunities exist in refurbishing Ukrainian civil airports. Thirty-six airports function in Ukraine. However, only ten of them service regular flights. All civil airports are state owned, and formally subordinated to the Ministry of Transportation. Only two airports (Kyiv-Zhuliany, and Odessa) are municipal. By end 2001, The Ministry of Transportation plans a massive transfer of its airports to municipalities, leaving only 8-10 under its management. The airports which will be further developed by the Ukrainian government are Kyiv-Boryspil, Kyiv-Zhuliany, Simferopol, Dnipropetrovsk, Donetsk, Kharkiv, and Lviv.

Ukrainian airports have the potential to service six million passengers annually (data provided by the Ukrainian Ministry of Transportation). Currently, Ukrainian airports operate at average 25% of their potential. Kyiv-Boryspil is the main Ukrainian hub servicing almost 80% of international and 20% of domestic air traffic. The GOU plans to turn Boryspil Airport in Kyiv into the only international hub in Ukraine, while regional airports would supply international air travelers to Boryspil for connecting flights.

A drop in domestic and an increase in international passenger use revealed the need to refurbish existing airports and to create new international passenger areas at Ukrainian airports. Airports in Donetsk and Odessa has plans to undergo cardinal reconstruction and amenity upgrading in 2001-2002. However, the success of such initiatives will largely depend on increase of flights through these airports that will be a key factor in recovering investments.

(Market Size Data is not available for this sector.)

#### **4. Building Materials (BLD)**

The Ukrainian market for building materials offers sound opportunities to American exporters. The developing Ukrainian construction industry is looking for new supply sources and contacts. Domestic production of building materials is lagging due to increasing energy costs, obsolete technology and aging facilities. These conditions have increased prices for locally produced products, which in turn have provided opportunities for western products.

The Ukrainian market for building materials is highly competitive. German, Italian, Scandinavian, French, and Spanish exporters are aggressively promoting their products. Many well-known European brands are represented at construction shows held in Kyiv. However, distribution systems are still in the process of development. Even major distributors are not able to serve as one-stop shops, and consumers spend time searching for product, quality, and price. Price and quality are the decisive factors in consumer choice.

Ukrainian distributors focus on high profitability, which seriously impacts the marketability of U.S. products. To reduce prices and increase competitive advantage, several European companies have established joint manufacture of building materials in Ukraine.

Local building contractors do use materials of foreign origin and new technologies. Building materials of German, Italian, Austrian, Spanish, French, and Scandinavian origin have gained a strong presence in the Ukrainian market. U.S. building products have increased their market share, but remain a small percentage of the overall building materials market.

Kyiv is well-supplied with imported building materials. Pricing for building materials in more remote areas is higher than in central and western Ukraine, although the gap is decreasing. Kharkiv, Dnipropetrovsk, Donetsk, L'viv, Odessa, and Zaporizhzhya offer potential for foreign exporters and investors interested in expanding operations into Ukraine. Cooperating with importers located in or oriented toward industrial regions of Ukraine may be advantageous for U.S. exporters.

In 2000, Ukrainian domestic producers of building materials manufactured UAH 3799.6 million (USD 691 million) worth of product. This is 15% more than in 1999. But this increase does not reflect increased production volume in the industry sector, since prices for domestic products rose by 20%. In quantity, domestic production actually dropped by 9% for the year 2000.

#### **Quantitative Production of Building Materials in Ukraine**



Material	1999	2000	Quantity
Cement	7441.1	6676.3	Thousand ton
Bricks (baked or lime-sand)	2435	2142	Million units
Metal roof shingle	300	600	Thousand sq. meters
Clay Roofing shingles, Imbrex, pantile	111	159	Thousand sq. meters
Building lime, masonry lime	452.7	565.1	Thousand ton
Finishing lime	2915.6	2921.4	Thousand ton
Gypsum rock	311.5	303.9	Thousand ton
Gypsum plasterboard	4101.5	7254.7	Thousand sq. meters
Asphalt shingle, bituminous sarking and tar paper	24763.0	31893.3	Thousand square me
Ceramic wall tiles	6000.6	6558.0	Thousand square me
Exterior or facade tiles	716.3	407.8	Thousand square me
Linoleum and vinyl floor tiles	3378.9	3278.4	Thousand square me
Various dry mixes	24926.7	24881.4	Thousand cubic mete
Various porous insulation	490.7	404.3	Thousand cubic mete

In most cases, local production of building materials satisfies the need of the construction industry for low cost items, when compared to imported products. But this price differential is decreasing, making room for the importation of foreign building materials.

It should be highlighted that NOT ALL imported building products have good marketing potential in Ukraine.

Low market demand is evident for: imported cement, bricks (domestic production is abundant), clay roofing shingles (customers desire metal shingles or asbestos roofing materials), asphalt shingle, bituminous sarking and tar paper.

Moderate market demand is evident for metal roofing components. Seven domestic metal producers are able to fulfill demand, although fixtures, sheeting and anti-corrosion components for production are imported. Imported metal shingles are available from Finland, Sweden, German and Poland. The Ukrainian State Statistics Committee indicates 600 thousand square meters of metal shingles were sold in Ukraine in 2000. And local producers feel that the demand will increase to 2 million square meters in the near future.

In cement, dry mixes are available. Local producers are numerous, but the quality is not always acceptable. Moreover, local production of mineral binding materials (gypsum and lime) is on the decline. Nearly all-local manufacturers import chemical binding, conditioning, and coupling agents. But Prices for these imports have begun to rise, opening the door for low cost suppliers.

Best Sales Prospects include:

- a. Linoleum (imported linoleum has improved coloring, is more than 2 meters wide),
- b. Carpet and tufted floor covering (there is only one domestic producer),
- c. Interior ceramic tiles (imported tiles have improved coloring and size variety),
- d. Wallpaper (better quality and coloring).

- e. Insulation (imported mineral wool has improved packaging, variety in sizes and pricing),
- f. Paints (local production is abundant for alkyd penta- phthalic oil paints, but production of acrylic paint, is not well developed).

## 2. Statistical Data

MARKET SIZE TABLE FORMAT (US DOLLARS MILLIONS)

	1999	2000	2001	Projected Average Annual Growth Rate for Following 2 years (%)
Import Market	537	567	577	1%
Local	600	691	700	1%
Exports	335.8	409.5	412	1%
Total Market	801.2	848.5	865	2%
Imports from U.S	12	18	18	

SOURCES (Note: Reliable, complete, and accurate statistics on production, imports, and exports of goods are not available in Ukraine. Information contained in this report relies on sources that include government publications, opinions of industry participants, and unofficial U.S. Embassy estimates.)

## 5. Computers & Peripherals (CPT)

The exact size and structure of the Ukrainian computer hardware market is difficult to measure, since official statistics ignore such key factors as local production, and shadow imports of components. However, local production based on imported components is thriving and reshaping the market. Based on data provided by market insiders, rate of importation of finished (assembled) "brand name" computer equipment has been decreasing by 10 percent annually, and importation of "non-brand name" computer equipment has been decreasing by 15 percent per year. This decline in imports of finished computers (both brand and non-brand) is mostly due to higher rate of taxation of imported finished PCs versus imported components. At the same time, demand for locally manufactured computer hardware (i.e. from imported components) is steadily increasing, and reached 75 % of total market share in the year 2000.

Of the approximately 700 companies currently operating on the local computer market, 66 are engaged in local assembly or manufacturing of PCs. 80% of these computers are Intel based. Due to higher rate of taxation of imported finished PCs versus imported components, local production using imported components is thriving and reshaping the market. The other 634 companies focus on distributorship, resales, system integration, computer upgrades and sales of peripherals. Industry experts estimate that only 10-15 percent of Ukraine's potential computer hardware demand has been tapped. The key problem is the lack of purchasing power of consumers, plus the lack of consumer credit for installment purchases.

The market trends are as follows:

- A. Falling prices for expensive PCs (\$1,500-\$3,000) versus 10-20 percent increase in prices for low-end equipment (\$1,000)
- B. A growing interest in units with limited memory (64 Mbit or lower);
- C. Focus by local computer manufacturers on computer solutions, rather than on hardware sales;
- D. Decreasing share of desktop systems, and increasing sales of portable systems and servers.

Brand-name recognition of major U.S. computer manufacturers is strong, but pricing is still the key consideration for the Ukrainian purchaser. Major local companies sell between 10,000 to 20,000 PCs annually. Although increasing rapidly, home use of PCs is still limited to 10-15% of computer users. U.S. companies can access the Ukrainian market by tapping into an increasingly sophisticated network of agents and distributors throughout Ukraine who are able to reach a wide range of clients.

<b>Market Size Data</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
A. Total Market Size (USD Millions)	119	160	169	209	260	300
(1,000 units)	102	142	155	196	251	290
B. Total Local Production						
(1,000 units)		79	96	117	143	180
230						
C. Total Imports						
(1,000 units)	23.3	28.5	38.5	53.1	70.7	60

(Source: IDC, Compyuternoye Obozrenye, No. 4, 2000 and No. 49, 2000)

- Notes: 1. Sales projections for 2001- 2003 assume continued 4-6% economic growth, and market liberalization
2. Final figures for year 2001 were not available when this report was prepared
3. Import data reflects not only finished computers, but also computers imported as components

Solid growth in export oriented heavy industries in 2000-2001, as well as beginning resurrection of local machine building in 2001, may generate substantial increase in demand for imported computer hard and software for industrial needs. On the other hand, several educational programs announced by GOU and funded through the national budget will further increase the market share of low cost locally assembled PCs.

## **6. Computer Software & Services (CSF)**

Ukraine's expanding private sector will require various software solutions and packages. However, the poor enforcement of intellectual property rights in Ukraine is a factor to be noted by U.S. companies interested in entering the market.

Microsoft's Office and Windows programs are currently the most widely used office software in Ukraine. This software is installed on approximately 98% of all PCs operating in the country. The presence of many talented programmers, combined with weak International Property Rights (IPR) legislation and enforcement, have encouraged piracy and flagrant misuse of software. It is estimated that illegal software may comprise

10-40% of the software used by the government, 10-30% used by corporate customers, and 50-100% used by small and medium businesses, and home users of PCs. Foreign software dominates the market for legitimate software for corporate customers reaching 95%, while the share of local products doesn't exceed 5%. A more legitimate and transparent market for computer software is slowly taking shape, which is largely attributable to dealers selling computer hardware with preinstalled, legally- acquired software.

Ukraine has witnessed an increasing demand for specialized financial, statistical, management, and manufacturing software, presenting major opportunities for U.S. companies. For maximum market exposure and penetration, U.S. companies are advised to develop bilingual (Ukrainian/Russian and English) software, as well as to provide the necessary bilingual written instructions and after-sales service. The existing legal environment in Ukraine does not include many important norms that would regulate the localization of software products. Legitimate localization of foreign software products is almost non-existent, which is partially due to competition from products localized in Russia.

Ukraine is slowly emerging as a low cost site for high quality software development. The producers work mostly alone or in small groups on outsourcing projects ordered from abroad. This activity is usually not reflected in official statistics. There is a growing interest in Ukrainian computer companies to organize software production centers that could participate in international software development projects. However, high levels of emigration among qualified programmers and controversial Ukrainian legislation delay development of legitimate software technoparks in Ukraine, though unofficially this business is growing rapidly and its share already overgrew the share of imported software.

#### **Market Size Data (in \$ Millions)**

	<b>2000*</b>	<b>2001**</b>	<b>2002**</b>
A. Total Market Size	99 -108	117	132
B. Total Local Production	57- 66	75	90
C. Total Exports	53- 63	70	80
D. Total Imports (legal)	13	15	27
E. Total Imports (illegal).	29	27	15

(\* These statistics are unofficial estimates by the Ukrainian Association of Software Developers

\*\* These statistics are unofficial estimates by CS Kiev.)

### **7. Drugs & Pharmaceuticals (DRG)**

The market for drugs and pharmaceuticals in 2000 was growing and reached \$ 400 million.

The market share of Ukrainian manufacturers reached 49% in 2000. 155 companies are licensed to produce pharmaceuticals, but a mere 22 of these produce about 70-75% of the total domestic pharmaceutical output. The majority of Ukrainian pharmaceutical companies have been privatized, and only seven are state-owned. The Ukrainian

pharmaceutical industry manufactures about 1,300 different medicinal products, mainly generic drugs, branded generics and vitamins. Domestic manufacturers operate in the lowest price segment of the market, supplying high volumes of cheap generic drugs and vitamins.

Firms should note that the Ukrainian government is unable to purchase large volumes of expensive drugs; cheap generic drugs are more realistic for a predominantly state-run health sector. Large Western pharmaceutical companies are focusing their attention on private regional distributors who enjoy financial support from local companies and maintain strong ties with local health care authorities and facilities.

American companies are also advised that burdensome certification and registration procedures present significant, but potentially manageable, obstacles in this underdeveloped market. U.S. firms will further need to develop a strong public awareness campaign to educate Ukrainian consumers, given their minimal exposure to advanced medicines. Strong sales support should also be available to address these issues.

In the longer term, some multinationals may look closely at potential acquisitions or joint ventures in Ukraine. Access to local manufacturing capacity would offer significant advantages in the current regulatory climate, and it will become clear within the next two years which domestic producers are likely to succeed in efforts to reach international GMP standards.

Market Size Data (in \$ millions):

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001(estimated)</b>
A. Total Market Size	450	290	400	480
B. Total Local Production	200	180	195	N/A
C. Total Exports	50	30	40	N/A
D. Total Imports	300	140	245	N/A
E. Imports from the U.S.	4	5.3	8.9	N/A

(Source: the Ministry of Health of Ukraine.)

## **8. Electrical Power Systems (ELP)**

Following the overall economic reforms initiated in 1994, Ukraine has sought to restructure and commercialize its outdated and tightly state-controlled power generation systems. While the vast electrical power sector requires sweeping reform and billions of dollars in investment, major opportunities (largely dependent on financing from international financial institutions) lie ahead for U.S. companies. The U.S. Agency for International Development, the World Bank, and the European Bank for Reconstruction and Development are assisting the Ukrainian government with energy reforms and the creation of an independent energy sector.

According to Ukrainian legislation, thermal power generation companies and regional power distribution companies must be privatized. Ukraine's thermal power plants are old, their equipment is antiquated, their technology is obsolete, and they lack modern pollution control equipment. The National Program for the Power Industry wants to focus, among other things, on refurbishing thermal power plants with fluid bed boilers,

double-arch furnaces and other innovative combustion technologies for utilizing Ukrainian low-grade coal. Due to lack of internal financing, the stations cannot carry out the full range of necessary refurbishment themselves. New hydropower utilities such as Dniester Hydro Pumping Storage Station that will reduce dependence on imported energy resources, are in the process of being built. Ukraine's nuclear power plants (NPP) also have to be upgraded. Construction of three new nuclear power generation units was started on Khmelnytsky NPP, Rivne NPP and South Ukraine NPP and suspended later due to lack of internal funds. Construction of Khmelnytsky and Rivne NPP units is expected to resume pending the EBRD loan approval and commitments by the other international financial institutions. The project total cost is estimated at US\$ 1.48 billion. One of the major obligations Ukraine fulfilled for this project was the Chornobyl NPP closure in December 2000, and GOU still has to fulfill certain requirements for international financing approval. Open tenders are being held for procurement of various categories of equipment and services within the Chornobyl Shelter Implementation project (scheduled for completion in 2007) and two major decommissioning facilities construction projects, Spent Fuel Storage and Liquid Waste Processing (both scheduled for completion in 2003.) These projects are financed from the Chornobyl Shelter Fund and Nuclear Safety Account that accumulate about US\$ 1 billion in grant funds, which are administered by the EBRD. A combined heat-and-power generating plant is planned to be built to replace Chornobyl NPP, using Ukrainian and U.S. funding.

The centralized municipal heating systems, which are in use in most Ukrainian cities, are worn out and unreliable. They need rehabilitation and technical upgrading. The State Committee on Energy Conservation, in conjunction with the regional power distribution companies, has initiated projects to reconstruct town boilers and enhance district heating efficiency in the cities of Kyiv, Sevastopol, Dnipropetrovsk, Lviv, Kharkiv and Odessa. The World Bank has approved a \$200 million loan to Ukraine for a Kyiv District Heating Improvement Project which is currently under implementation, and US\$ 28 million to upgrade the Sevastopol district heating system. There is increasing demand for autonomous heating systems in private cottages, and in the basement/roof-based boiler houses for multi-story buildings.

In the Crimean peninsula, the climatic conditions justify the use of solar-collector heating systems to supply hot water for households and industrial users. There is a demand for small-capacity wind generators to drive water pumps and meal processing equipment in rural areas of the Crimea and the Carpathian mountains.

Export opportunities for U.S. companies include:

- electric motors for feeder pumps, portal cranes, and conveyor belts;
- accumulator batteries, assorted bearings, circuit breakers, disconnectors, switches;
- current and voltage transformers, frequency converters, support insulators, generating sets;
- fluid bed boilers, low and medium-capacity boilers and auxiliaries, tubular stacks for boilers, boiler pipes, steam ejectors, assorted valves, superheaters;
- air heating, ventilation and conditioning equipment and spare parts;
- pump meters, nickel-steel tubing;
- steam and gas turbines and auxiliaries;

- solar-collector heating systems; wind generators for driving water pumps and meal processing equipment.

Market Size Data:

	<b>1999</b>	<b>2000</b>	<b>2001</b>
A. Total Market Size (in \$ millions)	1500	1600	1700
B. Imports from the U.S. (in \$ millions)	190	200	220

(The above statistics are unofficial estimates. Other statistics are not available for this sector.)

## **9. Energy Efficiency (EE)**

Energy efficiency was an oxymoron in the former Soviet economy, where energy was cheap and plentiful. The breakup of the USSR, however, quickly forced Ukrainian industries and citizens alike to cut energy use, given the quick transition to world prices for Russian and Kazakh oil, and for Russian and Turkmen gas. The Ukrainian government has pushed to establish a true market for energy and remove extensive state subsidies, resulting in a more than 1,000% increase in electricity costs between 1994 and 1998. Gas prices have also skyrocketed, increasing over 1,000% from 1994 to 1998, prompting many Ukrainians to install gas meters to accurately record use.

There are many areas for energy saving equipment and technology implementation. Due to poor control over the use of fuel and energy resources, Ukraine's energy efficiency is still two to three times lower than that in developed countries. The country ranks sixth in the world in gas consumption, and third in gas import after the United States and Germany. Approximately, 30% of the hot water supplied to houses and public buildings is used inefficiently or simply wasted.

Almost 40% of the total heating energy generated is lost in transport from generator to consumer. Ukrainian thermal power generating plants now operate at 50-55 % efficiency rate. Improving their efficiency should reduce fuel consumption by these plants.

In the short-to-medium term, U.S. companies should explore commercial opportunities in energy efficiency demonstration projects (targeted at both residential and industrial consumers); district heating/hot water supply projects to curb waste and shorten the prolonged outages of heat/hot water (which are common in Ukraine); and urban and apartment block lighting projects to save electricity and brighten Ukraine's streets. Longer-term projects will emphasize controlling the profligate waste of energy by Ukrainian industries -- a step that is closely tied to privatization and to putting heavy industry on a market footing. The majority of projects focus on control systems, gas meters, energy-efficient technologies, and monitoring devices to measure and regulate electricity use. The Kyiv city administration is currently managing a project of improving energy efficiency in Kyiv public buildings: schools, hospitals, kindergartens, and public administration buildings. The project includes the introduction of automated boiler-houses and energy efficiency measures including the installation of heat meters in more than 1600 buildings. The World Bank is providing an US\$18 million loan and there is open tendering for ongoing procurement for the project.

In May 1998, the State Committee for Energy Conservation coordinated the establishment of Ukraine's first energy service company (UkrESCO), which should identify and implement energy-saving investments in small and medium-sized manufacturing enterprises (SMEs) and public sector institutions throughout Ukraine. In May 1998, the EBRD agreed to provide a sovereign loan of US\$30 million for this project and the loan agreement was ratified by the Ukrainian Parliament in May 1999. International tendering for energy conservation equipment and services began in June 1999 and is ongoing.

Best prospects for U.S. companies include: efficient gas turbines and turbo-expander units; hydraulic turbines; central heating boilers and advanced boiler technologies; energy conservation technologies in the heat-exchange systems and furnaces; modern digital control systems; gas and heat metering systems for industrial, domestic and commercial use; monitoring devices and card payment systems to measure and regulate electricity use; rehabilitation and replacement of compressors for transmission systems; efficient drilling machinery, particularly drilling bits; coal quality control equipment; innovative insulation and antirust coatings; energy-efficient technologies; consulting services in energy conservation, energy audit, etc.

(Market size data is not available for this sector.)

## **10. Food Processing & Packaging Equipment (FPP)**

The food processing and packaging equipment (FPP) sector offers prospects for U.S. exports and long-term investment. FPP operations in Ukraine are outdated, with some canning operations dating back to the 1950s. Packaging materials are limited and packaging itself is barely functional. With upgraded processing and packaging technology, Ukraine can conceivably become an important exporter of processed food to the former Soviet republics, Central Europe, and the Black Sea basin.

Currently, there are up to fifty manufacturers of food-processing machinery in Ukraine. These enterprises tend to dominate the markets they serve simply because they provide basic, inexpensive equipment to cash-strapped, inefficient, and heavily subsidized sub-sectors of the food-processing industry. Despite Ukraine's attempts to replace previously imported food-processing and packaging equipment with locally produced equipment, it is highly unlikely that Ukraine will produce equipment in the near future that will meet world standards.

Many Ukrainian food-processing and packaging firms want to purchase new equipment in order to process higher-value-added foods of exportable quality. There is a strong preference for foreign equipment (better quality and technology) and in many cases there are no local manufacturers of certain food-processing and packaging equipment. There is also a large potential market for reconditioned and used equipment. Nearly 80% of the imports come from major suppliers in Germany, Italy, Sweden, and Denmark. Major Eastern European suppliers are located in Hungary and Poland, although their market shares are now declining because they offer little cost advantage over Western European manufacturers.

The FPP industry is in desperate need of new technology and machinery in order to increase sales and reduce food losses. The market is likely to expand rapidly in the next



several years, especially in the following areas: (a) equipment for higher value-added processing or secondary processing; (b) energy-efficient equipment; (c) small-capacity production equipment (especially for large agribusinesses that have split into small and medium-sized companies); and (d) packaging equipment that ensures a longer shelf life and proper hygiene for processed products. The best sales prospects for FPP (including used or refurbished equipment) are: dairy equipment, baby food production equipment, pasta and bread-making equipment, equipment for breweries, equipment for producing and bottling soft drinks and juices, fruit and vegetable processing equipment, vegetable oil (especially sunflower) extraction and refining equipment, and equipment for candy production and packaging.

There are approximately thirty food-processing joint ventures operating in Ukraine. Commodities International Limited (C.I.L.), a U.S.-Ukrainian joint venture, is working with a Khmelnytskyi-based enterprise to process and package beef and pork for sale in the Russian and Ukrainian markets. Kraft General Foods purchased a candy factory in Trostyanets (Sumy oblast) and is currently producing chocolate products which are in high demand. The Dnipropetrovsk Oil Extraction Factory, with investment from Swiss Iltta-Holdings, received a loan from the EBRD to upgrade its production facilities. In July 1996, Midnight Sun Inc. (Sweden) established the joint venture "South Food Inc." to produce tomato sauce, ketchup, and canned vegetables under the "Chumak" brand. "Chumak" tomato sauce is very popular in Ukraine and has a 13% share of the market.

In 1997, McDonald's opened its first restaurant in Ukraine (in Kyiv). By June 2000, the company had invested about \$70 million in building restaurants and developing local production infrastructure. Currently, it operates 37 restaurants in 13 major Ukrainian cities (Kyiv, Kharkiv, Odessa, Dnipropetrovsk, Donetsk, Lviv, Mykolajiv, Kryvyj Rig, Sumy, Chernigiv, Cherkasy, Simferopol, and Zaporizhyya). The company employs around 2,000 people. About 35% of the products used in McDonald's restaurants are made in Ukraine. Soon nearly 90% of McDonald's products will be made from Ukrainian foodstuffs (buns will come from a bakery in Dnipropetrovsk, meat will be produced in Vinnitsa region, ketchup will be made in Kherson, and so on). McDonald's has donated over \$2.5 million to various projects of social importance.

Cargill has opened a \$50 million sunflower seed processing plant near Donetsk. Here domestically produced sunflower seeds are crushed for use in oil, food and soaps. Cargill began its activities in Ukraine in 1991 with a corn research institute in Dnipropetrovsk. In 1994, the company started merchandising grain, oilseeds, petroleum, steel, sugar, fruit juice concentrate and cocoa, and from 1995 to 1997 they were involved in warehousing and fertilizer blending. In 1999 the company bought its first grain elevator, and bought shares in a second one.

Tetra Laval, the Swedish food processing and packaging equipment manufacturer, is one foreign company that has been successful in selling food-processing and packaging equipment in Ukraine. The company has been aggressively pursuing business opportunities in countries of the former Soviet Union since 1991 and has its own office building in Kyiv, located next to their packaging materials factory. Tetra Laval manufactures and sells a wide range of equipment, but has been most successful selling packaging equipment for liquids (milk and juices).

Market Size Data (in \$ millions):

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
A. Total Market Size	50.0	58.0	61.0	N/A
B. Total Local Production	35.0	30.0	30.0	N/A
C. Total Exports	5.0	3.0	3.1	N/A
D. Total Imports	10.0	15.0	16.5	N/A
E. Imports from the U.S.	4.6	4.0	4.2	N/A

(The above statistics are unofficial estimates.)

## **11. Medical Equipment (MED)**

There are no accurate statistical data on the size of the medical equipment market. Neither the Ministry of Health of Ukraine nor any statistical agency can provide accurate figures on domestic production. The size of the market can be estimated by examining customs and tax reports.

The majority of the Ukrainian health care system is still state-owned, and is financed from the State Budget. Ukraine's National Health Service is now in the process of being restructured to incorporate modern methods and higher levels of medical assistance. A long awaited health insurance reform is expected in the near future. The restructuring of the medical care system may be a very good target for technical assistance funds, which in turn may eventually help to develop a real market for medical supplies.

Medical equipment traders are prime contacts for U.S. businesses entering the Ukrainian market, due to their extensive networks and ability to identify buyers. The major purchasers of medical equipment are state-owned regional and "vidomichi" (departmental) hospitals, the latter owned by various ministries and enterprises. The potential for private hospitals has been increasing.

Best sales prospects for U.S. exporters include: laboratory equipment, radiographic units, electro-medical equipment, dental equipment, laser surgery devices, sterilization devices, diagnostic systems and disposable items. Some medical equipment is produced in Ukraine, but production is not competitive on a global scale.

The market potential for laboratory equipment (i.e. centrifuges, ultracentrifuges, spectrophotometers, nuclear counters, and blood grouping systems) is high in Ukraine. Demand for dental equipment (i.e. complete workstations, dental syringes, needles and laboratory products) is increasing. Opportunities exist for electro-medical equipment. Modern equipment offering ease of use and cost savings is required in the fields of microsurgery, radiology and biomedicine.

Receptivity to used medical equipment is lukewarm. Ukrainian purchasers are often not familiar with U.S. medical equipment, and wonder about its operational life span. However, a potential market for used medical equipment does exist, with the recommended approach being the creation of a joint venture.

Market Size Data (in USD millions):

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
A. Total Market Size	185	180	200	N/A

B.	Total Local Production	160	170	180	N/A
C.	Total Exports	60	70	70	N/A
D.	Total Imports	85	80	90	N/A
E.	Imports from the U.S.	8	8	9	N/A

(The above statistics are unofficial estimates.)

## 12. Oil and Gas Field Machinery (OGM)

In Soviet times, Ukraine had an abundance of subsidized oil and gas from Russia. Today, Ukraine's petroleum industry is in a state of decay - broke and unable to sustain itself. Technology and equipment is years behind that in the United States. Ukraine does not have local manufacturing of pumping equipment capable of producing below 6,000 feet, even though many of the fields are at depths of 10,000 to 15,000 feet. Stimulation technologies such as hydraulic fracturing and acid stimulation are not available. Three-D seismic has not been used on-shore, and drilling equipment is antiquated and has difficulties drilling below 15,000 feet. It might take two to three years to drill a well at this level, which is where the majority of undeveloped reserves and a lot of developed reserves are to be found. There is very limited domestic production of drilling machinery; it has been mostly imported from Russia and Romania.

Ukraine has the second largest potential refinery capacity in the NIS, with six crude oil refineries with a capacity potential of about 53 million tons per year at six refineries. However, capacity utilization is very low. About 60% of petroleum products consumed in Ukraine are imported, mostly from Russia, Belarus and Baltic countries. Most of Ukraine's refineries date from before World War II, and are therefore unsophisticated, with little modern technological capacity to process crude oil into valuable light products such as gasoline, diesel fuel, aviation fuel, kerosene, and liquefied petroleum gas. In Ukrainian refineries, refined product yield - the ratio of light products to the total refined - is only 57% on average, versus a desired target of 75%. In 1999-2001, three major Ukrainian refineries were privatized. Odessa Refinery was purchased by Russian Lukoil, Kherson Refinery - by Kazakhoil, and Lysychansk Refinery (LINOS) - by Russian TNK (Tiumenskaya Neftianaya Kompania.) These companies are currently investing in upgrading the refineries and establishing the retail gasoline trading systems of gas filling stations and fuel storage capacities Ukraine-wide.

The Ukrainian government has made the development of the oil and gas sectors one of its top priorities. There are several projects that may offer potential purchases of U.S.-made equipment and services: Ukrainian refineries modification; exploration of the Azov-Black Sea shelves (after enforcement of the Law on Production Sharing Agreements); operating the 9 million tons capacity Pivdenny (Odessa) Oil Terminal and the 667-kilometer Pivdenny-Brody pipeline, which would be part of the Eurasian Oil Transport Corridor, a transit route for Caspian oil to reach Central Europe; and the rehabilitation of the 35,000-kilometer gas pipeline that delivers nearly 35% of Western Europe's natural gas.

The best prospects for U.S. companies include: pipeline construction equipment (compressors and pumps for pipeline applications; gas transmission systems; gas pipeline leaks control systems; gas pipe fittings and applications; welding machines, cranes, pipe-cleaning equipment, and line trend machines); advanced and highly

efficient oil and gas exploration and drilling equipment and technologies (pontoons supported on columns, hoisting cranes, drilling rigs, bits, electric motors, winch rollers, rotary tables, sheds, hoisting blocks, monkey boards, crown blocks, gin holes, shackles, cutting, roller and diamond bits, casing sleeves, chemicals, stimulation technologies, modern 3-D seismic, particularly for offshore projects where Ukrainian technology is very limited); equipment for atmospheric-vacuum oil refining; modernization and increasing of hydro-cracking and catalytic cracking capacities; units for catalytic transformation of distillates; industrial automation, control and monitoring systems for refineries, gas processing and petrochemical plants; desulfurization and quality control facilities; safety systems; fuel dispensers, fuel storage tanks, fuel level monitoring and accounting systems.

Market Size Data (in \$ millions):

	<b>1999</b>	<b>2000</b>	<b>2001</b>
A. Total Market Size	1120	1120	1140
B. Total Local Production	N/A	N/A	N/A
C. Total Exports	N/A	N/A	N/A
D. Total Imports	46	46	50
E. Imports from the U.S.	10	10	13

(The above statistics are unofficial estimates.)

### **13. Pollution Control Equipment (POL)**

The Ukrainian government has placed a high priority on the need to address the critical state of the environment. In June 1991, a basic environmental legislation - the Law on the Protection of the Environment - was adopted. During the last several years, a number of environmental laws and regulations were adopted in Ukraine in order to consolidate internal and external resources for resolving environmental problems. Unfortunately, most of these documents are merely declaratory, and lack the proper enforcement mechanisms. In addition, due to a lack of funds, most existing projects targeted to improve the environmental situation in the country have been precluded. Ukraine lacks a serious national ecological treatment program. Without centralized planning and procurement, local enterprises have resorted to informal trading to acquire the equipment they need. Few enterprises can afford the installation of air and water control systems.

Although significant, the pollution control equipment market in Ukraine cannot be calculated using traditional methods. Market size analysis is complicated by the difficulty in obtaining exact statistical data from Ukrainian institutions. Virtually all municipal water treatment facilities and industrial pre-treatment systems need replacement and reconstruction. The majority of Ukrainian industrial enterprises are also in need of reconstruction and installation of new water and air pollution control systems. Production, installation and distribution of various pollution control systems are vastly needed. Significant strategic opportunities exist for U.S. companies in this emerging market, which should be studied on a case-by-case basis.

(Market size data is not available for this sector.)

#### **14. Security & Safety Equipment (SEC)**

American-made security and safety equipment is one of the most promising industrial sectors for export to Ukraine. Rising crime, weak law enforcement, and the emergence of a strong business mafia have compelled many Ukrainian citizens to take matters into their own hands. While existing legislation restricts the purchase and use of firearms by the average citizen, many citizens rely upon a variety of security devices and alarms for their homes and cars, including car alarms, house alarms, advanced technology locks, and closed-circuit TV. The rapid growth of private banks has been accompanied by an increased demand for safety deposit boxes, safes, metal detectors, pagers, smoke detectors, and sophisticated turn-key security and access control systems. Ukrainian companies are often willing to pay top dollar for an effective security package, as seen by the proliferation of Ukrainian security companies. Domestic manufacturers are unable to meet demand, both in terms of quantity and quality desired. U.S. companies are advised to use trade exhibition opportunities to make valuable contacts and to contact private Ukrainian security firms directly. U.S. firms should also note that the import of security and safety equipment requires certification from the Ukrainian Ministry of Internal Affairs, which is often a cumbersome process.

(Market size data is not available for this sector.)

#### **15. Telecommunications (TEL)**

The most important development on the Ukrainian telecom market is cancellation by Ukrainian authorities of a number of legal requirements that limited foreign companies' ability to own and operate public phone, TV and radio networks in Ukraine. This was done in preparation for long expected privatization of Ukrtelecom, Ukrainian national telecom operator.

##### **Wireline communications**

Significant advances in wire-line communications include the completion of a national telecom network with 45 long-distance exchanges (27 are digital and located in regional centers; the other 18 regional exchanges are analog), and 3 digital international gateways. Ukraine has also installed a national fiber optics network connected to international fiber optic systems: ITUR, TEL, TAE, BSFOCS. The fiber optic network consists of 4,200 km of fiber and digital microwave communication lines. Ukrainian users have available international telephone connections with more than 200 countries. The average is 19.8 telephones per 100 inhabitants.

Two companies dominate the national and long-distance wire line networks: Ukrtelecom and Utel. Owning all transmission facilities, Ukrtelecom administers the national wire line infrastructure. The company employs more than 130,000 people. Plans to privatize Ukrtelecom have been repeatedly announced since 1997-1999, but fierce opposition has continued to delay the privatization. The law on privatization of Ukrtelecom was adopted July 13th, 2000, so determined was the GOU that it even included Ukrtelecom privatization revenues into the FY2001 budget. However, amendments to the legislation needed to conduct privatization, have not been adopted by the Ukrainian Parliament. In May of 2001, GOU announced a consortium of three foreign companies:

Squire, Sanders & Dempsey, Millen Financial Services, and BNP Paribas as the selected advisers in the privatization of Ukrtelecom. Despite this positive step, the industry and privatization specialists acknowledge that privatizing Ukrtelecom in 2001, which was GOU's intention, would be impossible. GOU agencies were in a disagreement on substantial details of the privatization, even to the number of Ukrtelecom shares to be put on sale. The GOU eventually announced its plan to privatize 37% of Ukrtelecom, but this figure is still not final and may be adjusted to the requirements of potential customers. Privatization, when it does occur, is expected to reshuffle the telecom industry in Ukraine.

Utel is the leading long-distance and international provider. Established back in 1992 as a Joint venture between Ukrtelecom, AT&T, Deutsche Telecom and KPN, Utel has been bought out from Western shareholders by Ukrtelecom in 2001-2002. There are a number of small regional providers of wireline services but their share of the local market is not significant. Due to Ukrtelecom's privatization and Utel's restructuring, local market of telecom equipment procurements estimated at \$100 million per year a couple of years ago, has decreased dramatically which had a negative impact on international suppliers of telecom equipment and software that provided for these companies.

Ukraine's wire line network remains far from optimal. Fees for line installation are high, and installation requires a long wait. Although an increasing amount of digital equipment is in place, many regional stations continue to connect customers with outdated equipment. Out of the 10 million phone lines, only 10% are serviced by digital exchanges, another 10% are supported by electronic and quasidelectronic exchanges. The rest are serviced by obsolete relay and mechanical equipment. This limits the introduction of a new electronic billing systems. Almost all rural local loops are unprofitable. Ukrtelecom subsidizes local loops with revenues from fees for international calls, line installation, and registration. The number of phone lines may vary throughout a region. Kiev has the highest number (43.6 percent), followed by the industrial regions in the east (19 percent). Telephone lines are few in the agricultural regions of Transcarpathia and Carpathia, located in the western part of the country. There are estimated 3.3 million people on the waiting list for individual phones. At the same time, there is an excess of 800,000 vacant telephone connections. Ukrainians cannot afford paying \$300-1000 for installation.

### **Wireless cellular communications**

Wireless mobile communications is the most active subsector of the telecom industry in Ukraine, in terms of user growth for example (market penetration for MC is only 2%, but the number of users has doubled every year). A striking feature of the market is the large number of MC operators. Five operators UMC, Kiev Star, Golden Telecom GSM, DCC, Welcom - offer wireless mobile services in the following standards: GSM900/1800 (UMC, Kiev Star, Welcom), NMTi 450 (UMC), DCS 1800 (Golden Telecom GSM), and D-AMPS (DCC).

Last year (2000), the market started to consolidate around two leading operators: UMC (Ukrainian Mobile Communications) and Kiev Star. UMC had 285,000 users in September 2000 (compared to 186,000 in March 2000). Kiev Star had 185,000 users in September 2000 (compared to 60,000 in March 2000). Based on information provided by MC operators, in November of 2000, there were only 600,000 MC users in Ukraine.

But aggressive marketing and promotions, along with significant discounts in fees and the introduction of flexible payment schedules, have increased the number of users dramatically. MC users doubled from September 2000 to June 2001, and their number is approaching 1.3 million users (as of June 2001). MC providers anticipate that by the end of 2001 the number of MC customers may reach 1.7-2 million. More than 80% of MC customers are accounted for by just two operators: UMC and Kiev Star. Industry insiders speculate that other two remaining MC operators are considering divesting their networks, which would additionally consolidate the market.

This success of operators in sharply increasing the number of MC users, has disclosed some hidden problems:

(A). No Spectrum Expansion: The leaders in the MC operators race didn't anticipate such rapid growth in the number of customers. The GSM900 spectrum that these operators utilize does not provide room for an increase in traffic. Though a "spectrum expansion" was announced in 2000, operators still had not expanded into the GSM1800 spectrum as of January 2001.

(B). Not Enough Profit to Support Upgrades: Another unforeseen problem is that new users do not generate enough revenues for operators to recoup funds already invested into the networks. And yet, additional investments are needed to upgrade network capacity to GSM1800. This situation leaves operators unable to finance upgrades out of current fees.

(C). Network Capacity Approaching Technological Limits. The industry speculates that some providers recruited more customers than the network can handle. Fueling the problem, new MC customers prefer prepaid card packages and utilize the mobile phone as an emergency communications system, which has impacted network capacity but does not generate new revenue growth. To keep the market developing, MC operators will need to find new investors and reduce low profit clients.

## **Satellite Communications**

Ukraine has joined the Inmarsat, Intelsat, Global Star and Orbcomm satellite networks. Satellite telecommunications in Ukraine may be limited due to low-income levels. However, the GOU is deploying a system of digital satellite TV and radio broadcasting, which will also be used for internet via satellite.

## **Internet**

Based on official statistics, there are now approximately 260 ISPs in Ukraine--seventy are located in Kiev. (Source: Kompanyon No. 24, June 2000). The industry experts believe that 30 to 40 of the leading ISPs, that have experience, size and finances, determine the development of the national market. The remaining --220+-- ISPs are either, small peripheral operators or in a short-term business. Industry sources disagree with the estimates as to the market of ISP services in 2000. Sales estimates ranged from \$25 million to \$60 million. In our opinion, industry sales appear to be closer to \$30 million. After 1997 ISP business in Ukraine is not subject to licensing, though law enforcement agencies and some of the major ISPs advocate for reinstatement of licensing to protect their business from small, aggressive and often short life competitors.

The analysis of revenues received by ISPs, indicate that 99% of the revenues are generated by payments for Internet access, while web design and hosting, provided for less than 1% of industry revenues. ISP still remains the core business in this industry. Businesses, such as e-commerce, web design and hosting are in most cases developed by successful ISPs as a side business in anticipation of future income.

There are no official statistics for the number of Internet users in Ukraine. By unofficial count there are approximately 600,000 Internet users in Ukraine, or 1.1 percent of population. Most Ukrainian users of the Internet live in Kiev. Though numbers of Internet customers increased by 25% in 2000 there is a limit to this growth, imposed by the number of PCs available in Ukraine. There are approximately 1 million PCs in Ukraine and only 40% of them are adaptable for Internet access. It is a reason, why most ISPs focus on creating collective Internet centers at universities, colleges, Internet cafes, etc.

To expand the local market for Internet services and reduce the demand on international connections, ISPs have created the "Ukrainian backbone network". ISP companies that operate outside of Kiev are at a disadvantage, because they have to pay for access to an international channel and lease fiber optic lines from their region to the capital (similar in costs to international access). To reduce these costs, regional providers use radio relay channels that are outdated and unreliable, or voice band frequencies of Ukrtelecom. In the near future regional ISPs may opt for satellite channels. It is a fact, that many larger ISP providers feel the need for additional Internet connectivity. Substantial growth in Internet traffic and expensive international channels have forced ISPs to look for affordable Internet connections through satellite access.

The ISPs that seriously focused on young Ukrainians, as a future customer base, launched a prepaid web card in 2000. Currently, 10 ISPs offer a prepaid web card. Managers of these firms expect that the reduced cost of the service will expand their customer base. The cards allow customers to save on monthly and registration fees by offering lower rates. The service offer is expected to attract customers who cannot afford or do not need regular Internet access.

On May 16, 2001 the Ukrainian Government introduced licensing of IP- telephony. This operational license will cost UAH 899,300 (approx. \$ 163,000) for the period of 15 years (source: [www.korrespondent.net](http://www.korrespondent.net)). The license is issued by the State Committee for Communications upon request and payment receipt. If an ISP company provided IP-telephony services, an operational license for international voice services was required before May 16th, 2001. This license costs UAH 8,993,000 (approx. \$ 1.63 million). As the number of companies that have a license for international voice communications is limited, most of ISP companies that provided IP-telephony services did it illegally using existing gaps in Ukrainian legislation. Though, annual sales originated by IP-telephony in Ukraine reportedly don't exceed \$ 6 million or 1% of revenues from international voice communications, wireline operators view this business as a threat to their factual monopoly and exorbitant tariffs.



Identified obstacles for the development of additional Internet services are: a) insufficient a local loop development (i.e. last mile problem); b) lack of relevant legislation for Internet-related businesses (e.g. IP- telephony, e-commerce, digital signature and information security.); c) limited number of computer users; d) expensive international channels; e) Ukrtelecom's monopoly on backbone network and local loop.

## **16. Travel and Tourism (TRV)**

Most of Ukraine's tourism facilities are worn out, so Ukraine may be viewed as a promising market for those companies involved in the development of tourism infrastructure. U.S. companies that specialize in hotel and resort development, theme park development, winter sports facilities, tour development, concept design, convention business, alternative tourism, construction and redevelopment of airports, marina development, information technologies and advertisement have the best opportunity to participate in the upgrade and expansion of Ukraine's tourism infrastructure. Despite an overall economic slump, tourism has become one of the key drivers of the Ukrainian economy, generating \$3.6 billion or 8% of the nation's GDP in 2000. In Crimea alone, proceeds from tourism make more than 50% of the Crimean government budget.

Ukraine's tourist accommodation facilities include nearly 1,400 hotels and more than 2,000 health resorts and tourist camps. However, the quality of service and the number of hotel amenities are well below the typical expectations of Western tourists and the prices are very high in relation to the quality of service offered. Moreover, most of the state run hotels and even some private hotels in the remote areas apply different rates for locals, Russians/CIS citizens, and other foreigners. Rates can be up to 10 times higher for a U.S. traveler than for a Ukrainian. The fee for a Ukrainian visa ranges from \$50 to \$150, which adds significantly to the overall cost of travel, further discouraging western travelers.

Only in 2001, ten years after the independence, Ukraine managed to develop the first international chain hotel (Kempinski Hotel in Odessa). Other projects slated to open in 2001 (Intercontinental St. Sophia in Kyiv) and in 2002 (Radisson SAS in Kyiv and Odessa) now do not seem likely to do so. Marriott Hotels have projects in Kyiv at the inception stage. Hilton Hotels decided not to pursue projects in Ukraine at this stage after several unsuccessful attempts in Kyiv. Part of the difficulty in getting such projects off the ground appears to be the "hidden resistance" of existing hotel "bosses" to allowing international chains to operate in Kyiv and other Ukrainian regions, even when they publicly speak in favor of competition. Some of these "bosses" either have close ties with civic authorities or are themselves government/municipal officials. This cover-up system creates obstacles for foreign hotel developers at the very earliest stages of their projects (i.e. when they are seeking design-approval from the City Architect, allocation of land, etc.) The other main impediment to the development of international hotels is the land ownership issue: Ukrainian law prohibits ownership of land by foreigners, and therefore all existing hotel projects have to be carried out on the basis of a land lease term of 49 or 99 years. However, the Kyiv City Administration has recently announced plans to attract investors for extensive hotel refurbishment and new projects.

During 2000-2001, local companies and foreign investors have developed new hotels in Kyiv, Dnipropetrovsk, and Crimea offering relatively high quality of service and

amenities. However, U.S. Embassy has become aware that despite announced Swiss, Irish, and Cypriot investments in these hotel projects, the real owners of these new facilities are local and Russian oligarchs, some of them with criminal connections.

Convention tourism is underdeveloped largely because its potential is not appreciated by local tourism leaders rather than because of any lack of facilities. On the contrary, the numerous former communist party resorts and conference facilities, while requiring refurbishment and proper marketing, offer excellent venues for international business activities.

Currently, nearly 3,000 licensed travel agents and ground operators provide tourism services in Ukraine. Almost 93% of these companies are privately owned or joint ventures, with only 7% managed by the State. Some 10% of all travel agents in Ukraine operate in joint ventures with foreign companies. Carlson Wagonlit was the first U.S. travel company to open an office in Kyiv (April 2000) and remains the only international brand company to have done so.

In general, tourism services are divided into three categories in Ukraine: inbound, outbound, and domestic. Almost 75% of all travel agents specialize in outbound tourism, some 20% in inbound servicing of foreign travelers, and 5% in domestic services for Ukrainians only.

According to the Ukrainian Border Control Service, 12 million Ukrainians traveled to other countries in 2000 (compared with 12.6 million in 1998). The major outbound destinations were: Poland (3.9 million); Russia (3.2 million); Hungary and Moldova (1.1 million each). Of the G-7 countries, Germany was visited by 124,000 Ukrainians, and the USA by 37,500 Ukrainians (an explosive increase compared with 15,000 visits in 1998). The majority of Ukrainian travel agents buy tours from foreign operators, with only a handful of the largest ones able to offer their own product. These large Ukrainian tour operators are: SAM, Gamaliya, Yana, Sputnik-Ukraine, Bytsko Travel, and WorldTravel Ukraine.

Almost 10.6 million foreigners visited Ukraine in 2000 (compared with 12.0 million in 1998 and 14.6 million in 1997 respectively). Most foreign visitors in Ukraine originate from Russia, Germany, Austria, USA, and Canada. However, it should be noted that nearly 75% of all foreign arrivals are from Russia/CIS. These visitors have lower service-level requirements than others, hence slowing down the development of the sector.

The most popular destinations in Ukraine are Kyiv (roughly 30% of all visitors), Crimea (30%), the Carpathian region including Lviv (20%), Odessa, Chernihiv, and Kamyanets-Podilskiy. Most Western travelers prefer either individual travel or cruise tours.

Seaside tourism, with centers in Crimea and Odessa, faces a relatively short season and stiff competition from other destinations, primarily Sochi in Russia, and resorts in Bulgaria, Turkey, Cyprus, and Greece. This region was the primary center of recreational tourism in the former Soviet Union, and is therefore flooded with outdated resorts and sanatoriums formerly managed by trade unions, and divisions of Ukrainian and Russian governments. Crimea offers ideal climatic conditions, many curative mineral waters, peat and mud. In order to extend the tourism season in Crimea, local private companies and municipalities have developed attractive investment projects involving construction of winter sports facilities, hiking, marina development,

entertainment centers, cruising and golfing. Crimea also has a plethora of historic sites connected with the Ancient Greek and Ottoman periods. In 1999, the Ukrainian Parliament granted VAT exemption for tour operators in Crimea. In addition, a Presidential Decree gave Yalta, Alushta, Sudak, Feodosiya and other resort towns the status of territories of priority development, thereby granting substantial incentives for investors and tourism project developers in these areas.

The Carpathian region provides a unique combination of mountains, clean air, curative spas, historic sites and ethnic culture. This is where most travelers from the United States, Canada and Western Europe tend to come. Development of resort hotels, ski facilities, spas, hiking areas, and convention centers may provide excellent opportunities for investors. There are prospects for combination tours taking in Poland, the Czech Republic, Hungary and western Ukraine. Lviv, included in the UNESCO list of historic treasures, may be especially interesting for construction and design companies.

Cruise tours down the Dnieper River to Odessa and Yalta in Crimea are gaining in popularity, especially with U.S. and Western European tourists.

All major European airlines operate regular services to and from Ukraine. U.S. carriers do not yet operate direct flights to Ukraine, in most cases offering code-share services with their European partners in global alliances.

National and regional transportation infrastructures are inadequate and act as the main obstacle to the development of the tourism sector. Particularly noticeable is the low quality of domestic airline service and poor road conditions across the country. The State Tourism Committee is trying to encourage foreign companies to get involved in the development of a ground travel infrastructure, including motels, restaurants, service stations, as well as information programs.

## **17. Retail (RTL)**

In the next five years, Ukraine may be experiencing a supermarket boom. Current high popularity of cash-and-carry systems in large Ukrainian cities make operators re-orient into development of western style supermarkets. Kyiv, Dnipropetrovsk, Donetsk, Kharkiv, Odessa, and Lviv provide good trade opportunities for U.S. retail chain developers. Not known in Ukraine on early stages of independence, the terms "cash-and-carry" and "supermarket" have become increasingly popular with urban households.

Since 1999, cash-and carry trade outlets has been rapidly developing in major Ukrainian cities Kyiv, Dnipropetrovsk, Donetsk, Kharkiv and Odessa. Destruction of the centralized system of commodity provision and a deep crisis of the wholesale system stimulated accelerated development of modern trends in retail trade in Ukraine. Western NIS Enterprise Fund (USA) was the first large foreign investor in the development of cash-and-carry systems in Ukraine. In 1999 this U.S. Government Fund helped develop the first cash-and-carry chain of five centers (two in Kyiv; one each in Kharkiv, Odessa, and Zaporizzhya), having invested average \$2-3 million in each store. Other popular Ukrainian cash-and-carry chains are Fozzy, Rainford, Le Fourchette, and Maxi. Since 1999, local companies have developed 14 cash-and-carry centers in Kyiv only.

In 2000, German retail giant REWE invested \$ 9.4 million into development of western style supermarkets, having become the second largest foreign investor in Kyiv (after McDonalds.) The first three outlets under the brand name BILLA have been built in Kyiv outskirts (2000 square meters of shopping area each). REWE announced its plans to open 5-7 supermarkets every year in Ukraine during next five years. As of July 2001, BILLA operated stores have been the only western managed retail facilities in Ukraine. German retail chain METRO has been reported to make steps to enter the Ukrainian market, as well.

Retail sector has been favorably developing in Ukraine since 1999. In Ukraine's capital Kyiv, retail sales have shown 21% annual growth for the second consecutive year. Other large Ukrainian cities (with more than 1 million of population) Kharkiv, Dnipropetrovsk, Donetsk and Odesa experience less but also have shown significant retail trade growth. Also noteworthy, the share of non-food items has increased to 56% in 2000 compared with under 40% during 1995-97. Market experts predict further growth of the share of non-food items (especially general consumer goods and electronics) to 63% by 2005, a trend that may signify a recovery of the Ukrainian economy and development of a middle-class.

In Kyiv alone the number of large shopping outlets is expected to increase by 30, and by the end of 2003 reach 45. This trend may offer good sales opportunities for U.S. manufacturers and suppliers of supermarket equipment (cash registers, conveyors, bar-coding machines, scanners, ATM's, security systems, refrigerators and freezers, etc.) U.S. supermarket developers and chain owners may try to follow the market entry success of European retail companies.

## **B. Best Prospects for Agricultural Products and Services**

Domestic food and beverage prices in Ukraine remain significantly lower than those of imported goods. Imported foods and beverages are much more expensive for several reasons: duties up to 50%; a high value-added tax (VAT) on imported goods; excise duties for alcoholic beverages, cigarettes, coffee, and chocolate; and high profit margins set by local sellers of imported products.

Despite such barriers, imported food products are in high demand. Approximately 30% of Ukrainian food expenditures are on imported products.

### **1. Alcoholic Beverages**

Ukraine has 87 plants that are licensed to produce alcohol. They can process up to 900,000 tons of grain and 1.1 million tons of molasses per year, producing roughly 320 million liters and 300 million liters respectively. In addition, there are hundreds of other producers of spirits, liqueurs, wine, and cognac.

According to a 1998 Presidential Decree, the State Committee of Ukraine for Monopoly on the Production and Turnover of Ethyl Alcohol, Alcoholic Beverages, and Tobacco Products was established. This Committee is authorized to: (1) control production, export, import, transportation and sale of the above-mentioned goods; (2) issue relevant

licenses; (3) fine violators of legislation; and (4) submit proposals for introducing minimum prices for alcohol and tobacco.

Based on known market needs and steady development in the sector, the Ukrainian beer market is considered one of the best prospects for foreign exports into the food market. Currently, over 100 Ukrainian enterprises are involved in beer production, offering a broad range of nearly 180 light and dark beer brands to Ukrainian customers. There are also nearly 40 types of imported beer available on the market, with Heineken, Kilkenny, Guinness, Pilsner, Tuborg, DAB, Corona, and Beck's among the most popular. According to different sources, Ukraine's annual per capita beer consumption is 15-17 liters.

The Ukrainian beer industry has grown considerably over the last five years. Industry experts predict the market share of imports will drop to 5-6% as the trend continues. In 2000, Ukraine produced 107.4 million deciliters of beer, a 22% increase from 1999 levels and a 36% increase over 1998. The output of leading domestic breweries is expected a two-fold increase over the next couple of years and is estimated at 128 million deciliters for the year 2001.

The six largest breweries control almost 80% of the total domestic market: CJSC "Obolon" (26%), OJSC "Rohan" (14%), OJSC "Slavutych" (14%), CJSC "Desna Brewery" (8%), CJSC "Donetsk Brewery" (8%) and OJSC "Yantar brewery" (7%). However, market operators and insiders predict that in a few years' time four breweries - the Krym Brewery (Simferopil), the Kolos Brewery (Lviv), the Dnipro Brewery (Dnipropetrovsk) and the Chornomor Brewery (Odessa) - will expand their market shares and reshape the beer market. These breweries have the potential to take the number of leading brand names from six to ten.

Current major investors include: Scandinavian Baltic Beverages Holding Co., which has invested in the Slavutych Beer and Soft Drinks Plant (Zaporizhzhya) and the Kolos Brewery (Lviv); the Sun-Interbrew investment company, which controls the Rohan Brewery (Kharkiv), the Desna Brewery (Chernihiv), the Krym Brewery (Simferopil), and the Yantar Brewery (Mykolayiv); Invesco Ceam investment company (registered in Cyprus), which is working with breweries in Odessa and Mykolayiv.

Some breweries prefer imported raw materials, because they are cheaper and because domestic raw materials are often of inferior quality. Import duties of 30% and 50% are imposed on malt and hops, respectively. Most hops are imported, with Germany being the leading supplier, since granulated hops are produced only by the Berdychiv plant (Zhytomyr oblast). Two specialized plants located in Berdychiv (Zhytomyr oblast) and Slavuta (Khmelnysky oblast) supply domestic malt.

There are opportunities for U.S. companies in the Ukrainian beer market especially relating to the critical demand for brewery equipment, as there are currently no local manufacturers. Ukrainian breweries primarily use equipment imported from Western Europe. U.S. companies would be well-advised to explore opportunities in Ukrainian breweries and micro-breweries, bearing in mind that there is also a strong demand in adjacent CIS and Eastern European markets.

## **2. Poultry Products**

Since 1994, U.S., poultry exports (mostly chicken leg quarters) to Ukraine have grown steadily. Ukrainian consumers prefer imported frozen chicken leg quarters, which are competitively priced compared with locally produced fresh broiler meat. Market niches also exist for other poultry products, like mechanically separated poultry and turkey meat for further processing and turkey parts. Ukraine has maintained high import duty (EURO 0.3/1 kg) for imported cut poultry. The majority of importers; however, continue to avoiding paying import duties and other legal taxes. Poland and the Baltic States have become the major transshipment countries from which U.S. poultry meat is transported by Ukrainian trucks. U.S. exporters should be certain that they secure in advance all the necessary documentation required by the Ukrainian Government, particularly the veterinary Certificates. It is advised that U.S. exporters pass all the risk associated with actual importing to the experienced Ukrainian importers.

Market size data (1,000 metric tons)

	1997	1998	1999
A. Total Consumption	249	266	291
B. Total Production	192	214	204
C. Total Exports	0	0	0
D. Total Imports	57	52	87
E. Imports from the U.S.	49	7	75

### **C. Significant Investment Opportunities**

As enterprises within the machine building and high-technology defense sectors convert their production to commercial and consumer goods, opportunities exist for U.S. investment in the production of such items as computer equipment, components, and peripherals; the creation of specialized software; building materials; the joint manufacturing of telecommunications equipment (primarily satellites and fiber optics); and the production of security and safety equipment. The following is an overview of key investment opportunities in the most promising sectors. Where appropriate, opportunities arising from bilateral foreign assistance or multilateral development bank-funded projects are discussed.

#### **1. Electrical Power Systems (ELP)**

Ukraine's seven power generating companies supply electricity to the national grid. Four thermal power generating companies, Dniproenergo, Donbasenergo, Zakhidenergo and Tsenterenergo, manage 14 large thermal power plants (TPPs). Two hydro power generating companies, Dniprohydroenergo and Dnisterhydroenergo, comprise a cascade of six hydro power plants (HPPs) and one hydroelectric pumping storage power station (HPSPS) located along the Dnieper River, and one HPP located on the Dnister River. Energoatom national nuclear power generation company manages five Ukrainian nuclear power plants (NPPs): Khmelnytsky, Zaporizhzhya, Rivne, South Ukraine plants and Chornobyl plant that was shut down by Ukraine fulfilling the international obligations in December 2000. Twenty-seven Ukrainian power distribution companies, ten of which are now privately controlled, receive electric power through the wholesale market

("Energomarket") at wholesale tariff from generating companies. The retail market for power energy consists of the direct consumers of power energy. Electricity is transported through the high-voltage central transmission networks, which belong to Ukrelectroperedacha power transmission company, then through local middle and low-voltage transmission lines, which belong to the regional distribution companies, and then to the consumers. The National Dispatch Center (NDC), which includes eight regional dispatch centers, controls the stability in the energy grid.

Ukrainian legislation provides that thermal power generation companies and regional power distribution companies must be privatized. Ukrainian power companies need investments for technical upgrading, therefore need to be privatized by experts in the management of electric power utilities, with straightforward investment programs. Privatization of regional power distribution companies began in December 1997. As of June 2001, ten power distribution companies were privately owned, including seven owned by Ukrainian oligarchs. AES Corporation (USA) purchased Kievoblenergo and Rivneoblenergo. The stock distribution plans of four thermal power generating companies stipulated that the state would retain a 50% plus one share for five years; 15-24% would be sold on privileged terms, primarily to enterprise employees; 26-35% would be sold on tender.

The electric power sector offers possibilities for U.S. companies and investors to participate in the upgrading of thermal and hydropower plants, especially improvement of control systems and supply of gas meters and energy-efficient technologies. Excluding Chornobyl, the estimated total investments envisaged for the power industry in both non-nuclear generation and nuclear generation equal \$3.88 billion in 1996-2000 and \$5.22 billion in 2001-2005. The Ministry of Energy and Fuel's thermal rehabilitation project requires capital investments of about \$500 million per year (1996-2005). The estimated cost of the turbine replacement program for hydropower plants is \$45 million in 1996-2000 and \$28 million in 2001-2005. The government is attracting investors to complete construction of new thermal power generation units, including a 225-MW unit at Dobrotvir TPP, and new hydropower utilities, including small-capacity stations on Carpathian mountain rivers. Late in 1999 the U.S.-Canadian company ESI Engineering and Construction won the investment tender for completion of the 2,450 MW Dniester Hydro Pumping Storage Station; total project cost was estimated at \$454 million.

The EBRD-financed \$158 million Darnytsia Power Plant Modernization Project is being implemented by the Ukrainian-Canadian joint venture Ukr-Can Power, which manages the Darnytsia Power Plant. The project includes modernization of the plant using efficient gas turbines, advanced boiler technology, up-to-date power generation installments, and proper control systems. It is anticipated that the implementation of the new equipment and advanced technologies would cut the plant's fuel consumption in half.

## **2. Energy Efficiency (EE)**

A number of opportunities exist for investors to provide technical assistance, training, and energy efficient technologies. Immediate efforts to save energy are focused on low-cost/no-cost programs in industry energy efficiency and heat and power boiler efficiency. Both are short-term, high-payback measures that involve energy audits, training in energy management practices and financial analysis, and provision of low-cost energy

efficiency equipment. This short-term approach supports a transition from government to the private sector by introducing modern management practices in industries that are unable to mobilize capital for larger investments.

Investment opportunities include: municipal heat and water supply projects; investments in power transmission and distribution utilities through privatization; power generation plant rehabilitation and upgrade; construction of alternative fuel and energy facilities; construction of small-capacity coal-fired and coalbed- methane-fired power generation utilities at coal mines; construction of combined-cycle CHP units and steam-and-gas units; upgrading of gas/oil-fired power generation units with gas turbines; joint manufacturing in Ukraine of heat insulation and roofing materials, energy efficient lamps, water and heat meters, silicon converters of solar energy into electric power, implementation of biogas-fired power generating units, local production of heat generating sets that use solar and wind power, heat-driven pumps and heat collectors.

Potential financing for energy efficiency includes commercial banks, private sector third party financing, industrial consumers, energy utilities, and multilateral lending and investment, including EBRD loan for financing the energy efficiency and conservation projects through the Ukrainian Energy Service Company (UkrESCO.) The U.S. Trade & Development Agency could partially finance feasibility studies on the prospective energy efficiency projects.

### **3. Oil & Gas Services (OGS)**

Ukraine's current oil and gas production meets only 10-12% and 20-24% of domestic needs respectively. The domestic fuel producing industry is complex and consists of approximately 250 companies performing crude oil extraction and transportation, natural gas extraction and transportation, oil and gas refining, and petroleum products storage and distribution. Continual reliance on crude oil imports from Russia and Kazakhstan, and natural gas from Russia and Turkmenistan has forced Ukraine to reexamine both tapped and potential reserves located in eastern and western Ukraine, as well as in Crimea. The Ukrainian government has declared the development of this sector as one of its top priorities.

The national holding company "Naftogas of Ukraine", created in early 1998, secured state-owned stakes in major Ukrainian oil and gas extraction, transportation and storage companies, including such giants as Ukgazvydobuvannia (natural gas exploration and production), Ukrtransgaz (gas distribution and transit), Ukrnafta (crude oil exploration and extraction), Chornomornaftogas (gas production on Black Sea shelves), the major oil pipelines Prydniprovski and Druzhba, Azmol (motor oils and lubricants). The sector, particularly oil and gas extraction and transportation, remains highly state-controlled. However, there are a number of joint ventures with foreign investments operating in oil and gas exploration and extraction. Some foreign companies have lease agreements for transportation and storage facilities that are mostly state-owned.

Investments related to the modernization of existing refineries are expected to be commercially viable. Of six refineries, all except the Kremenchuk refinery have been privatized. The largest investors are Russian oil company Lukoil that owns a controlling share in the Odessa Oil Refinery, Kazakhil that owns Kherson Refinery, and Russian TNK (Tiumenskaya Neftianaya Kompania that owns Lisychansk Refinery (LINOS.) To



increase cash revenue, petroleum auctions were introduced in May 2000. Crude oil, gas condensate, LPG and refined products are traded through auctions held by the Ukrainian Interbank Currency Exchange. It is not mandatory for private companies to sell through auctions, only for state-controlled companies; the fuel that the state receives from production sharing agreements also has to be sold through auctions. The domestic and foreign trade of crude oil and petroleum products is being liberalized and prices for oil products are not controlled by the state. The cost for modernizing Ukrainian refineries is estimated at over US\$6 billion.

Along with crude oil refining, the most advanced sub-sector in terms of private capital share is that of ancillary industries, such as petroleum product storage and distribution. British Petroleum started retail fuel sales in Ukraine in 1999 with two gas filling stations in Kiev. In 1999 BP also signed an agreement with the Kyiv city administration to construct another 8 stations in Kiev for a total cost of USD 10 million. The Hungarian company MOL has 3 gas filling stations in Zakarpattia (owned by their joint venture MOL-Zakarpattia.) Russian-Belorus Slavneft has a number of gas filling stations in Kiev and in Western Ukraine. Both MOL and Slavneft plan to expand their retail chain. Big petroleum companies, such as Lukoil (Russia), TNK (Russia), and the Kazakh company, Kazakhoil jointly with Russian Alpha Group started aggressively expanding into the Ukrainian petroleum market in 1999-2000 by acquiring controlling shares of Ukrainian crude oil refineries. It is anticipated that the number of foreign owned gas stations will continue to increase. TNK, which owns the controlling interest in Lisychansk Oil Refinery (LINOS), has announced plans to expand its retail petroleum trading business into Ukraine. TNK is expected to increase to 300-350 gas stations by acquiring or constructing modern gas stations and by developing gas stations on a franchising basis. Lukoil plans to invest USD 30 million to develop the retail gasoline-trading network in Ukraine, particularly in Kyiv, Odessa, Mykolayiv, Kherson, Ivano-Frankivsk regions and Crimea. Lukoil, which controls 96% of the Odessa Oil Refinery, already has its own fuel retail trading subsidiary with over 40 gas filling stations in Crimea, Odessa, Mykolayiv, Zhytomyr, Kyiv, Vinnytsia, Ivano-Frankivsk, Kherson, and Zaporizhzhia.

Ukraine's carbon resources are estimated at the equivalent of 7-8 billion tons of fuel. There are three petroliferous areas in Ukraine located in the west (Carpathian region), in the east (Dnipro-Donetsk region), and in the south (the Black Sea and Crimean regions). There are at least 300 potentially profitable oil and gas fields in Ukraine, of which 194 have been developed. The total number of operational extraction wells exceeds 4,400 units. Ukraine has approximately 35,000 kilometers of gas pipelines. Input capacity of the gas transport system of Ukraine is 290 billion cubic meters annually. Annual output capacity (to the European countries as well as to Moldova and the south of Russia) is almost 170 billion cubic meters.

There are several areas for investment in the oil and gas sector. Investment requirements in natural gas exploration and extraction were estimated at \$160 million for 1996-2000, and another \$150 million for the period 2001-2005. Upgrading and replacement of transmission system compressors required \$250 million in 1996--2000, and will require an additional \$100 million in 2001-2005. The cost of increasing transmission capacity was estimated at \$500 million for 1996-2000, and \$1.5 billion for the period 2001-2005. Continued expansion of the domestic distribution system (according to Naftogas of Ukraine's plans) required about \$470 million in 1996-2000, and will require \$500 million in 2001--2005.

Oil and gas extraction has potential for expansion using up-to-date Western technologies (deep drilling, 3-D seismic, well-logging, reservoir characterization, directional drilling, etc.) to locate new traps or untapped zones, or to rejuvenate older fields. Already discovered, highly pressurized gas fields are largely beyond the capability of Ukrainians themselves to develop. Naftogas of Ukraine came up with investment projects for recovering old fields (Gutzulin gas field, Pylypiv and Dobleslav fields), and developing new oil and gas fields (Odessa shelf, Lokachiv gas field, Glino-Rozbyshiv and Kokaniv oil fields). Total investments needed for these projects were estimated at US\$ 250 million. The Azov-Black Sea shelf presents interesting investment possibilities in capacity expansion and hydrocarbon extraction. There is a state program on the Black Sea shelf development, which has been declared a priority by the President of Ukraine. American companies might be interested in oil and gas extraction upon enforcement of the production sharing law. In August 1999, the Law on Production Sharing Agreements was passed, but enabling legislation still has to be adopted.

Naftogas of Ukraine has some investment projects in oil and gas transportation, including reconstruction of compressor stations in Dolyna and Lubny, and construction of the Kherson-Crimea and Dolyna-Uzhhorod gas pipelines. A total of US\$300 million in investments was required for these projects.

Construction of facilities that would be part of the Eurasian Oil Transportation Corridor began as a result of the necessity to fully meet the demand for crude oil and the desire to open a transit route to Europe for Caspian oil. The construction of an oil terminal at the Pivdenniy seaport near Odessa, and a 667 kilometer pipeline link between Odessa and Brody and its extension to Gdansk/Poland would make it possible to supply industrial cities in Ukraine and Europe with approximately 40 million tons of crude oil per year.

The state-owned Druzhba Main Oil Pipeline Company is a coordinator and so far the major financier of both the Pivdenniy-Brody Pipeline and the Pivdenniy Oil Terminal construction projects, intended to improve the security and diversity of Ukraine's crude oil import supply. According to Druzhba, the normal planned capacity of the Odessa-Brody Pipeline and Pivdenniy Oil Terminal system would be 40 million tons per year. However, in its first phase, the transportation capacity would be only 14 million tons per year. After upgrading the Brody-Uzhghorod section of the Druzhba pipeline system, and construction of additional pumping stations en-route, the transportation capacity of the Pivdenniy-Brody system could increase in phase three to a maximum of 70 million tons of crude oil/petroleum products per year. Potential markets for crude oil exported to Europe through the Odessa-Brody Pipeline are the Slovak and Czech Republics, Hungary and Yugoslavia, which are 80-100 % dependent on Russian crude oil supplies. It is anticipated that the first phase of the project will be completed by mid-2002. Foreign investments will be needed to supply Caspian crude oil and operate the pipeline and the terminal.

#### **4. Telecommunications (TEL)**

Privatization of Ukrtelecom remains a major potential investment opportunity in Ukraine. Ukrtelecom was created in 1993, when the Ukrainian Ministry of Communications reorganized the national telecommunications structure by merging several telecom departments and regional PTTs into the Ukrainian State Telecommunications

Corporation (Ukrtelecom). Ukrtelecom owns all transmission facilities and administers the national wireline infrastructure. The company employs more than 130,000 people. Ukrtelecom's net profits totaled \$100 million in 1995, grew to \$130 million in 1996 and \$220 million in 1997. Estimates for 1998 were \$500 million net profit, but devaluation of the national currency reportedly brought gross revenues to \$714.4 million and net profits down to \$140.6 million.

Ukrtelecom's special attractiveness is partly due to the fact that the Ukrainian Law on Communications established a provision under which the foreign share in a company that provides telecom services in Ukraine cannot exceed 49%. For this reason, in addition to the actual monopoly on the local loop, Ukrtelecom usually either gets a share in any private or public telecom company operating in Ukraine, or signs a memorandum of cooperation with the operating firm. Therefore, control over Ukrtelecom means control over the national telecommunications market.

The Ukrainian telecommunications industry desperately needs financing. To upgrade the national communications network to world standards, the industry requires around \$10 billion in investment. The only way to obtain these substantial investments is through privatizing Ukrtelecom. Ukraine's hesitation to liberalize its telecommunications industry gave Ukrtelecom a substantial degree of clout in both the political and business communities. Privatization of Ukrtelecom, which was repeatedly proposed by the Ukrainian government in 1997 and 1998, has so far been delayed by fierce opposition from different political forces in the National Parliament.

The privatization of the Ukrainian telecommunications industry will be a long and painful process. It is very likely that industry interests will be viewed as being of minor importance. However, this privatization, when it happens, will certainly reshuffle the structure of the telecommunications market in Ukraine.

## **A. Taxation**

The Ukrainian tax system has evolved continually since Ukraine's independence. A growing number of double taxation agreements reflects an effort on the part of Ukraine to harmonize its tax system with international standards. In addition, over the past several years Ukraine has abolished several onerous practices which severely damaged the business climate and further debased the already low tax morale. For example, in 1999 the practice allowing local tax authorities to retain 30 percent of fines collected was abolished. This effectively turned the State Tax Administration (STA), responsible for the overall implementation of tax laws, into a predator and induced tax collectors to impose maximum fines, or to exploit unclear and contradictory aspects of the tax laws in order to generate fines. Tax authorities are now required to transfer to the state budget all fines collected. In addition, the practice allowing the STA to debit from taxpayers' bank accounts any taxes which it, the STA, deemed due without prior notice or judicial review has been suspended. In mid-2000 a new tax code aimed at overhauling the tax system while providing for successive reduction of tax rates was introduced into the parliament.

Despite these improvements, taxation tops the list of investment barriers in Ukraine. In a survey conducted by the International Finance Corporation in 1999, nearly all companies questioned cited Ukraine's high tax rates as a major problem. The sizable

number of taxes, as well as frequent changes of, and complexity in, tax legislation and reporting requirements were also nearly universally named as serious problems. The STA was granted broader authority in 1997, becoming accountable directly to the President and incorporating the Ukrainian Tax Police. The STA established an advisory committee to resolve tax disputes brought by foreign companies. However, some investors report that STA continues to conduct arbitrary inspections, often motivated by political considerations or induced on the part of a company's competitors.

Under Ukraine's Tax System Law there exist now 22 different central taxes and 16 types of local taxes. The most important taxes include value added tax (VAT) and import VAT (20 percent -- calculated on the difference between the VAT collected by a seller from its customers and the VAT paid to suppliers), corporate profit tax (30 percent), a progress personal income tax based on an employee's income (up to 40 percent), payroll taxes paid by employers to the Social Insurance Fund and Pension Fund, (37.5 percent of the payroll), excise taxes (up to 300 percent); and import-export duties.

Income received from royalties and interest is subject to a 15% withholding tax. The withholding tax on dividends is 30%. Corporate profits distributed as dividends are taxed as corporate profits (30 per cent) and secondly as income of shareholders (at a fixed 30 per cent rate); however, the shareholders' tax can be credited against that of the company so that in effect only one profit tax is levied. Dividends repatriated abroad are subject to a 15 percent repatriation tax, which is in lieu of the 30 percent tax for domestic shareholders but cannot be credited against the tax liabilities of the company. It might, however, be reduced or even eliminated through double taxation agreements. As of early 2001, Ukraine had double taxation agreements with 40 countries. The U.S./Ukrainian Bilateral Investment Treaty (BIT) took effect on November 16, 1996. The BIT guarantees U.S. investors the better of national or most favored nation treatment, the right to make financial transfers freely and without delay, international law standards for expropriation and compensation, and access to international arbitration. The OECD believes that Ukraine's double taxation agreements by and large conform to international standards. Nonetheless, complaints of foreign investors in Ukraine abound about failures on the part of Ukrainian tax authorities to apply these treaties properly.

Both Ukrainian and foreign entities pay their taxes on a quarterly basis. Ukraine follows a self-assessment system, i.e. taxpayers must submit their own tax assessment to tax authorities and pay the tax according to their own calculations. Corporate taxpayers are required to file quarterly declarations and make monthly payments on the basis of the actual taxable income earned in the previous month. While this might be appropriate in clear and transparent tax environments, the ambiguities of and inconsistencies in the Ukrainian tax legislation, especially when compared with financial accounting principles and international practice, have given rise to serious interpretation problems, frequently leading to costly disputes between taxpayers and tax authorities. The frequency of such declarations has been known to cause a serious administrative burden as has led to compliance problems. Because of the self-assessment system, corporate taxpayers bear the risk of erroneous interpretation of tax legislation and wrong calculations.

Although the corporate tax rate is nominally 30%, the actual burden borne by businesses can be higher due to the tax laws treatment of amortization and depreciation allowances. For instance, only "acquired" assets may be amortized but not assets "contributed" by shareholders to the charter fund of a subsidiary. Limitations also exist on a company's

ability to write-off investments in its production facilities. These examples show the importance of obtaining the services of experienced international accountants for tax-reporting purposes, as many local accountants have not yet made the switch to the international accounting standards required for new tax reporting.

In June 2000 the government submitted a comprehensive draft tax code to the Verkhova Rada (parliament). If adopted, the code would reduce the number of the existing 22 national taxes to 13 or 14 and the 16 local taxes and fees to 10, and provide simplified taxation procedures for small and medium-sized enterprises. The code would decrease the VAT in two steps from 20 to 15 percent, lower the range of personal income tax rates from 10-40 percent to 10-20 percent, reduce corporate profit tax in two steps from 30 to 20 percent, and introduce a property tax at a rate between 0.5 and 1 percent. In addition, these national taxes are to include state duty, excise duty, customs duty, rental payment, fee for special usage of natural resources, deductions from transit-charges for raw and processed mineral products, as well as fees for environmental pollution and waste disposal. Local authorities would be allowed to impose taxes on advertising and the use of local or national symbols, local excise taxes, municipal tax and a number of other fees, despite the fact that the total number of such taxes will be reduced.

In July of 2001 the parliament adopted in a first reading a version of the draft tax code. International observers, and particularly the IMF, have raised serious concerns that the code lowers rates without expanding the tax base, thus creating a serious fiscal burden for the central government. The government of Ukraine has told the international donor community that it, too, opposes the draft tax code, and would work to convince the parliament to revise it.

## **B. Trade Barriers: Tariffs, Non-Tariff Barriers and Import Taxes**

Importers face value added tax (20%), import taxes (ranging from 0 to 20%) and fees, and, if applicable, excise taxes (up to 300%). The VAT is levied at 20%, based on the customs value on the invoice, and is generally payable at the time of customs clearance by the importer. A promissory note can also be applied. Many agricultural enterprises are exempted from the VAT. Firms complain that the VAT system is poorly administered and some firms have reported that their VAT refund claims were not honored. Exempt goods include raw materials, component parts, equipment, machinery, and energy for production purposes and the enterprise's own needs. Zero VAT rates have been established for the following: sale of certain agricultural products by farmers until 2002; import of materials and equipment used for the development of the domestic ship-building until 2005; import of materials and equipment and exports of domestically produced space and equipment until 2009; import of materials and equipment used for the development of special chemical and ammunition production industry (excluding excisable products) until 2010; imports of goods used for the development of the domestic car construction industry and exports of domestically produced or assembled cars and compartments (under the condition of making at least \$150 million investment) until 2008; sale of recreation services in the Crimea resorts until 2005; and business development and work places creation in Slavutich until 2004. As the list of goods exempted from VAT changes frequently, businesses should contact a local tax expert for the most up-to-date list.

In January 2000, border checkpoints began collecting a new uniform customs duty, combining seven import fees - customs clearance, sanitary, veterinary, phytosanitary, radiation, ecological control, as well as fees charged for the passage of vehicles on the motor roads of Ukraine - into a single tax. Ukraine employs a two-tiered system of general (full-rate) tariffs and preferential (partial-rate) tariffs. Imports from Western countries are usually assessed preferential tariffs, which vary according to the types of products imported. Import duties largely depend on whether a similar item to that being imported is produced in Ukraine, and if so, the rate tends to be higher. U.S. exports to Ukraine usually receive preferential customs rates if the following three criteria are met: (1) the company is registered in the United States; (2) the goods have a certificate to prove U.S. origin; and (3) the goods are imported directly from the United States. In 2000, exemptions from import duties, as well as the VAT, were created for certain import contracts for shipyard equipment through January 1, 2005, under a law giving state support to the shipbuilding sector. Effective February 19, 2001, duties on used foreign cars doubled for cars under five years old and tripled for cars more than five years old; duties on new cars remained the same.

In 2000, the number of excisable goods was reduced from 20 to 5 categories: alcohol, tobacco, oil products, automobiles, and jewelry. The excise tax for jewelry rose to 55 percent from 35 percent. Excise duty rates range from 10 to 300 percent of the declared customs value. Excise rates vary often in accordance to whether the imported good is produced in Ukraine. In January 2001, excise duty rates were differentiated for cigarettes with and without filters and increased on certain wines, vermouth, and cognac. On some sorts of wine (champagne, sparkling wine) rates were lowered. Ukraine intended to increase excise rates for beer in April 2001. Excise rate increases are expected on petroleum products and have already risen for automobiles. Excise duty rates are expressed as a percentage of the declared customs value, plus customs duties and customs fees paid for importing products. Payment should be made in Ukrainian currency at the Ukrainian National Bank exchange rate effective on the day of payment.

### **C. Customs Valuation**

Customs valuation in Ukraine conforms with world standards, where customs value is defined as the sum of the sales price, transportation costs, freight, insurance, storage fees, and any other costs not foreseen in the contract price. Receipts should be presented to document these costs and to allow customs officers to determine the proper customs value. In the event that receipts are not available, Ukrainian customs will assess the customs value using comparative pricing of similar goods and services in the country of origin.

### **D. Import Licenses**

On January 6, 2000, the Ukrainian Cabinet of Ministers passed a resolution regulating import licenses. Goods subject to import licensing include: agricultural chemicals, pharmaceutical products (except dental materials and sutures), veterinary medicines, cosmetics, hygiene products, matrix forms used in the manufacturing of audio production, and ozone-depleting chemical substances (including propellants for spray-paints and enamels, perfume, body lotions, etc., paint solvents, fire extinguishers and refills, oil sprays, air-conditioners and refrigerating equipment, and refrigerated vending

machines). In early 2001, the Cabinet of Ministers passed another resolution aimed at licensing the import of industrial-grade polycarbonate, the main raw material used to produce optical media compact discs.

Most import licenses are granted through the Ministry of Economy. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs. Import licenses are issued by:

- the Ministry of Agriculture, the State Chemical Commission (for agricultural chemicals) and the Ministry of Ecology (if such substances are supplied in sprays);
- the Ministry of Health (for pharmaceutical products, cosmetics, and hygiene products) and the Ministry of Ecology (if such substances are supplied in sprays);
- the Ministry of Agriculture, Department of Veterinary Medicine (for veterinary medicines);
- the Ministry of Education and Science (for matrix forms used in the manufacturing of audio production);
- the Ministry of Ecology (for ozone-depleting chemical substances including propellants for spray-paints and enamels, perfume, body lotions, etc, paint-solvents, fire extinguishers and refills, oil-sprays, air-conditioners and refrigerating equipment, and refrigerated vending machines).

A copy of the contract and the import certificate are basic documents necessary for obtaining an import license.

## **E. Export Controls**

Export control is administered by Ukraine's Department of Analysis and Coordination of Export Policy, Cabinet of Ministers. The Ministry of Foreign Economic Relations and Trade of Ukraine also monitors and sets export prices for a number of Ukrainian goods.

Cabinet of Ministers of Ukraine Resolution #767, dated July 15, 1997, determines provisions for the examination of Ukraine's export and import goods. The controlled goods are understood as:

- military and other special commodities and "dual-use goods";
- military and special goods (armaments material, explosives, components, and accessories thereof, and attendant technologies, also other products and technologies, works, and services designed to be applied in the military sphere or those qualified as state secrets);
- certain commodities, equipment, materials, software/firmware that may be used when developing weapons of mass destruction (e.g., nuclear, chemical, bacteriological, biological, and toxic weapons), delivery vehicles, or when developing conventional armaments and special equipment.

Export control is administered by authorities of the Government Export Control Policy Commission and the Derzhexportkontrol (National Export Control Committee) implementing national control over protection of national security interests in compliance with Ukraine's international commitments regarding non proliferation of weapons of mass destruction and delivery vehicles, restricted transfer of conventional armaments, and other measures aimed at protecting national interests.

Government and non-government expert examinations in the export control domain may be preliminary, basic, repeated, and supplementary.

Preliminary examination is carried out to identify objects needing expert examination (listed as controlled goods); to assess the given business entity's observance of the export control laws and presence of appropriate regulatory documentation; and to assess the possibility of delivering goods designated by the given business entity to certain countries. Basic expert examination is aimed at preparing substantiated findings to be used in deciding on the possibility and conditions of exporting/importing and/or transiting certain controlled goods. Repeated expert examination may be carried out if there is any infringement of the terms and conditions of preliminary or basic examination, or if requested by the customer ordering such expert examination, provided essential shortcomings have been discovered in such preliminary or basic expert findings. Supplementary expert examination is carried out when there are circumstances affecting or capable of affecting preliminary or basic expert findings.

A person/entity ordering a preliminary, basic, repeated, or supplementary expert examination has the right to: determine the need of such expert examination; request replacement of experts; and receive progress reports at all stages of such expert examination. Ukrainian law prohibits the disclosure of any information relating to the documents involved in the expert examination or produced as a result of this examination without the customer's written consent.

A preliminary expert examination in the export control domain is mandatory, and is carried out by the Derzhexportkontrol. This involves other central executive authorities and government bodies, along with legal entities authorized by the Government Export Control Policy Commission.

In order to have controlled goods examined using preliminary expert procedures, a business entity forwards a brief summary in writing to the Head of Derzhexportkontrol, along with:

- three copies of an application for such preliminary expert examination, using the prescribed form;
- notarized copies of the statute, constituent agreement, and official registration certificates of this entity;
- a technical affidavit specifying each object/item to be exported/imported, along with technical characteristics and a reference to an entry in the relevant list of controlled goods. Should this entity intend to export/import technologies, works or services, the said technical affidavit shall include summaries of these technologies/works/services. This technical affidavit should be signed by the official in charge of the given entity and by the commander of the military agency there (if any) and carry the official seals of this entity and military agency;
- an affidavit/statement certifying the classification (secrecy) of the goods subject to expert examination, to be signed by the official in charge of the entity, head of its special departments and by the commander of the military agency (if any), attested to by the official seals of this entity and military agency;
- a list of countries to which such controlled goods will be exported or vice versa;
- a reference/affidavit/statement identifying officials securing the given entity's compliance with the current export control laws.



Any non-governmental expert findings commissioned by the given entity should also be enclosed.

The term of such preliminary expert examination depends on the range and quantity of the goods concerned and lasts up to sixty days from the date of presentation of the complete package of required documents by this business entity.

Basic expert examination is mandatory for deciding whether to issue a permit for the import, export or transit of controlled goods. This examination in the export control domain is carried out by the Derzhexportkontrol, other central executive authorities, and government bodies acting within their respective competence, also by legal entities and experts acting under appropriate authority (as submitted and justified or substantiated by the Derzhexportkontrol, or as resolved by the Government Export Control Policy Commission).

Basic expert examination is carried out as per documents submitted by the given business entity requesting permission to export/import controlled goods. Lists of these documents are determined in relevant provisions and regulations dealing with import/export/transit procedures with regard to controlled goods. These lists are subject to approval by the Cabinet of Ministers of Ukraine.

Given the fluid environment in Ukraine, U.S. businesses are advised to contact the Ukrainian Center for Export and Import of Special Technologies, Machinery and Materials for the latest information concerning export controls. Contact Oleksandr Siver, Director, 19/21, Frunze St., Kyiv, Ukraine; Tel: (380-44) 462-5558; Fax: (380-44) 463-7147.

## **F. Import / Export Documentation**

Firms importing goods into Ukraine should expect to be confronted with the slow workings of the country's bureaucracy and a large volume of paperwork. Importers are required to complete a customs freight declaration for every item imported. Use of licensed customs brokers to navigate the often non-transparent and seemingly inconsistent customs regulations is recommended, as constantly changing regulations and, in many cases, the mood of the customs officer, can hinder the successful import of a product.

Many U.S. companies with the intention to invest will import equipment, vehicles, and other goods under the aegis of authorized capital (or statutory fund), which will be exempt from customs duties. Goods that are to be re-sold in Ukraine, however, are subject to VAT, import taxes and fees, and, if applicable, excise taxes.

According to international practice, all imported/exported goods are subject to customs and border control checks. There are 70 approved customs clearance points across Ukraine - at all international ports, international (and several domestic) airports, and railway and road border crossing points. Every checkpoint covers a particular geographical area. Therefore, U.S. exporters should decide whether to pay all taxes and duties at the border or at the customs checkpoint nearest to the imported goods' final inland destination. Although the procedures are generally the same, the latter method is considered preferable. Customs clearance can be a lengthy process, so it is better that

goods are secured and guarded until closer to their final destination point. The importation of alcohol and tobacco goods into Ukraine can only be cleared through the Sevastopol, Mariupol, and Ilichevsk ports.

Upon crossing an international border point, goods will be classified in one of two ways: transit or customs cleared. If marked transit, the container or vehicle will be sealed by customs authorities and then customs cleared at its final destination. Additionally, vehicles transporting goods marked for transit which are subject to excise taxes are required to be wrapped in a transit band all the way through Ukrainian territory. This band is obtained at the customs checkpoint and has an assigned number, which is designated on the customs declaration.

The importer/freight forwarder should have all documents ready for presentation to the Ukrainian customs authorities, including:

- the signed contract;
- cargo customs declaration with the description and value of goods, term of payment (i.e., cash, bank transfer, barter, etc.) and terms of shipment. If payment is made by bank transfer, the name of the bank, address, and account number should be included;
- import license, if required;
- if importing weapons, ammunition, explosives, or poisonous substances, written permission is required from the Ministry of Internal Affairs;
- if importing electronic radio and equipment and high-frequency devices, written permission is required from the State Telecommunications Committee;
- if importing drugs, medical preparations, and sources of ionizing radiation, written permission is required from the Ministry of Health.

## **G. Temporary Entry**

Regulations pertaining to foreign companies and representative offices bringing in demonstration and exhibition samples are governed by the "Temporary Clause on the Regime for the Temporary Import of Goods, Property, and Transportation Means," issued by the State Customs Committee of Ukraine on December 30, 1991. These regulations classify imported items designated for demonstrations at exhibitions, fairs, and trade shows, as the temporary import of a foreign company's property, which is to be returned to that country afterwards. The temporary import of demonstration samples, excluding goods not allowed for importation, can be undertaken without registering the importer as a subject of foreign economic activity in Ukraine. This bypasses a burdensome bureaucratic process.

Temporarily imported goods can remain in Ukraine for one year from the date a customs declaration is submitted. If warranted, this term can be extended by local customs authorities for the duration of an economic, scientific, humanitarian, or other event in which the temporarily imported goods are required. The set term of temporarily imported goods should be reflected in the customs declaration. Samples may be shipped out of the country after usage via any customs point. Prior to their customs declaration expiration, temporarily imported goods should be:

- returned outside the Ukrainian customs border;

- declared at customs for further use;
- passed to customs for storage in a bonded warehouse; or demolished under customs control if these items cannot be used as goods, products, or equipment.

The following documents are required for temporarily importing demonstration samples: a customs declaration; permission from the respective Ministry, if required; and other documents outlined in the customs declaration.

Prior to being returned, samples are inspected by customs authorities to ensure that the quantity and description of goods match those registered at the time of importation. The customs fee for temporarily imported goods is \$30 for each customs declaration. When a large number of samples are imported, additional pages, costing \$15 each, should be attached. Demonstration samples to be returned outside Ukraine are exempt from customs fees.

In 1997, Ukraine imposed additional limitations on the temporary entry of cars to Ukraine. Corporations and individuals may now bring only one car per company/individual into Ukraine, for a period of three years, exempt from customs fees.

## **H. Labeling and Marking Requirements**

Ukrainian commercial legislation does not impose general labeling requirements on imported goods, except food items. All imported food products effective January 1, 1997 should carry labels in the Ukrainian language. The labels should include information about the manufacturer, product ingredients, and expiry dates for quality control purposes. In addition, some labels/markings have to be adhered to specific products, including labels for hazardous materials, labels indicating the contents and expiration date of foodstuffs, and markings indicating the voltage and frequency of electrical appliances. Detailed information on labeling requirements for particular products can be obtained from the relevant Ukrainian ministries and agencies.

## **I. Prohibited Imports**

The Ukrainian government strictly controls and restricts the import of weapons, narcotics, chemical and hazardous substances, certain pharmaceutical and communications related products.

U.S. companies wishing to import these goods should contact the relevant Ukrainian government ministry responsible for issuing licenses (for example, the Ministry of Internal Affairs licenses the import of hunting rifles). For further information, please contact: U.S. Department of Commerce, Bureau of Export Administration, 14th and Pennsylvania Ave., N.W., Washington, DC 20230; Tel: (202) 482-0500.

## **J. Standards**

Imported products/goods are subject to sanitary, veterinary, radiological and ecological control. Ukraine's regulatory environment is in flux and foreign firms have found the production certification system procedures to be difficult. Ukraine's numerous certification bodies effectively operate as independent (often monopolistic) entities on a

private profit basis. Many products require multiple certificates from multiple agencies at local and regional levels, requiring investors to provide additional documentation beyond that required by central agencies.

A 1994 governmental decree imposed compulsory certification requirements for goods imported into Ukraine. The decree specifies a list of goods subject to certification and regulates certification procedures. Certificates may be one of two types: (a) Certificate of Acceptance of a foreign certification issued by the Ukrainian State Standardization Committee (DerzhStandard), and (b) Conformance Certificate issued by a Ukrainian agency upon certification of goods. This decree states that certificates issued by foreign certification authorities are to be recognized in Ukraine only to the extent provided in international treaties to which Ukraine is party. Taking into account that there are currently no intergovernmental agreements on product certification between Ukraine and the U.S., a foreign certificate of acceptance will not be honored without first testing the product.

Product testing and certification generally relate to technical, safety, and environmental standards, as well as efficacy standards with regard to pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at company expense and is often done on a unit-by-unit basis rather than "type" testing. Where Ukrainian standards are not established, country of origin standards may prevail. Ukraine applies a range of sanitary and phytosanitary measures that are not consistent with a science-based approach to regulation. The certification and approval process can be lengthy, duplicative, and expensive.

To apply for certification, the following documents issued outside Ukraine confirming a product's conformity to specific requirements are to be submitted to the DerzhStandard:

- an application stating that the company wishes to certify imported products;
- a certificate of conformity;
- standards (technical conditions) of production and the procedures for certification;
- a certificate of accreditation from the testing laboratory;
- a protocol/summary of test results;
- a certificate of quality control;
- a certificate of origin (manufacturing).

DerzhStandard has created a network of 93 certifying bodies and testing laboratories (centers) throughout Ukraine. Each center is responsible for testing a particular item. Companies seeking testing should first contact DerzhStandard, as they make the ultimate determination on certification.

DerzhStandard has adopted as national standards the ISO-9000 series for production systems certification. Based on these standards, Ukrainian certification bodies can evaluate the quality of a production system rather than the quality of a single product. The procedure for issuing ISO certificates requires a visit from Ukrainian standards specialists to the importer's production facilities to inspect the system's quality. Adoption of the ISO-9000 series should facilitate the process of certifying goods as system quality certificates are issued for a three-year period. According to DerzhStandard, the ISO900 standard certificate doesn't prevent the importer from certifying individual products.

However, with this certificate, only selective goods will be certified according to the procedures described above.

Legislation pending in the parliament may improve and streamline the standardization process. A draft law on standardization, if adopted, would introduce voluntary standards and require standards to be determined by legislative or government acts. Another piece of pending legislation would replace mandatory certification for many types of products and introduce over time assessment procedures in conformance with international standards and the "New Approach" directives of the European Union, including the principle of "presumption of conformity to standards." A draft law, "On Accreditation of Conformity Assessment Bodies," would establish a national accreditation body, separate regulation of accreditation and certification, and ensure use of practice, standards, and procedures that apply for membership in the European Cooperation for Accreditation (ECA).

## **K. Free Trade Zones / Bonded Warehouse**

### **Free Trade Zones**

Since 1996, a total of 21 special economic zones (SEZ) or priority development areas (PDA) have been established, reportedly covering some 10 per cent of Ukrainian territory. The creation of free economic zones has been adopted as a method of regional industrial development.

Under the Ukrainian Law "On Special (Free) Economic Zones," adopted in 1997, there are three types of special economic zones in Ukraine: 1) special (free) economic zones; 2) territories with a special investment regime; and 3) territories of priority development. They differ by tax concessions granted to business entities that choose to operate in the zones.

The privileges enjoyed by enterprises operating in the zones can be summarized as follows:

- exemption from corporate profit tax, or reduced corporate tax rates, during the first three to five years of project implementation and taxation at reduced rates during subsequent periods;
- exemption from import duty and import VAT;
- reduced rates of withholding tax on income derived by non-residents and on dividends;
- exemption from mandatory conversion of revenues in foreign currency;
- exemption from social insurance tax and payments to the state innovation fund;
- exemption from land tax or taxation at reduced rates, and others.

In addition, the territories of special investment regimes and of priority development do not have independent customs borders as free economic zones do. Each zone is managed by an administration that also approves and registers all investment projects to be carried out in the zone. Normally, free economic zones are created for a period of 10 to 30 years. The Cabinet of Ministers of Ukraine approved a standard contract for implementation of investment projects in free economic zones. The contract has to be signed by the investor and the zone administration. It lists tax, customs and other benefits to be awarded to an investor, specifies phases of project implementation, investment schedules, new jobs, etc. The contract should also list predicted annual

volumes of production, sales or services. The contract should state as a condition that a project must begin no later than three months after the signing of a contract. Admission into an zone is frequently limited to large investors (e.g., investors investing more than \$1 million in the zone). Enterprises within zone are subject to strict regulation and supervision by both the local bodies and the central Agency on Special Economic Zones, which is part of the Ministry of Economy. Procedures on the admission of investors to and their exiting from zone as well as the powers of bodies entitled to interfere with business activities in zone remain opaque.

The future of the zones remains uncertain. They have come under heavy criticism from the International Monetary Fund, since to a significant extent, investments in these zones seem to come at the expense of investments elsewhere in the country. International observers and donors question the zones' success in mobilizing investments that would not have been made anyway in Ukraine. It is also assumed that the fiscal benefits granted to business within the zones distort competition with business outside them.

In recent years the Ukrainian government has not followed up on publicly announced intentions to reduce the number of zones in Ukraine. In early 2001 the Cabinet of Ministers authorized the Ministry of Economy to monitor the viability of the zones with the intention of closing those zones which are deemed to be ineffective in attracting investment. In April, 2001, the Ministry recommended closure of the one zone and questioned the viability three others. Shortly thereafter, however, new zones were created in the Transcarpathian region. Amid all this uncertainty, large companies are tending to remain very cautious until the GOU delivers a clear policy on the future of the free economic zones.

Ukraine has 18 ports. Located on the Black Sea, the Sea of Azov, and the rivers Danube, Yuzhniy Bug and Dnieper, they are currently under the authority of the Ministry of Transportation's Department of Sea and River Transport. All seaports are state-owned, except Sevastopol. Most river ports have been turned into open or closed joint stock companies. The Porto-Franco in Odessa had free port status.

### **Bonded Warehouses**

As in many other countries, import--export operations may be conducted as sales through bonded warehouses. Using this system, the customer collects ordered goods by presenting a sales receipt to warehouse operators. Since such operations often involve offshore contracts, the bonded warehouse is a device frequently employed by non-resident companies that do not directly do business in Ukraine. Such bonded warehouses can be either state customs points or privately-owned warehouses for the use of one or multiple clients (open versus closed warehouses).

Most foreign investors simply lease space in existing privately bonded warehouses. Larger importers may prefer to establish their own closed and secured facility. A representative office should note, however, that the establishment of an open warehouse may be considered a commercial activity by the Ukrainian Tax Inspectorate and possibly be subject to relevant Ukrainian taxes. Common business practice in Ukraine is to utilize a "closed" bonded warehouse; opening a bonded warehouse is a very complicated affair involving the State Customs Committee, a great deal of paperwork, and possibly organized crime.

To establish a bonded warehouse as an importer, one must first obtain a license to open a warehouse from the Ukrainian Customs Committee office nearest to where the warehouse will be established. To obtain such a license, one must present the following documents to Customs officials:

- an application (the application form should be obtained from the Customs Committee) stating that the enterprise wishes to establish a specialized bonded warehouse (solely for the storage of that enterprise's goods);
- a registration card of the entity opening a warehouse;
- a schematic diagram of the warehouse premises, indicating location of alarm systems and customs areas;
- an approximate list of goods intended to be stored in the warehouse.

Upon submission of the application and supporting documents, the warehouse must be ready for operation and equipped as a bonded warehouse. All interior renovations, including alarm systems, must be completed by this time. To open a warehouse, one must pay a set fee of the Ukrainian hryvnia equivalent of \$500 (at the National Bank of Ukraine's official exchange rate). Formal registration of the warehouse is normally done within 15 days after an application has been submitted. As a bonded warehouse licensee, an enterprise should also note that it will have to hire an official customs inspector on an as-needed basis to actually clear and approve shipments of goods. As a licensee, the enterprise can hire its own personnel to supervise the submission of customs declarations, but the customs official actually approves final clearance.

## **L. Special Import Provisions**

Parliament amended the Cabinet of Ministers decree "On the Unified Customs Tariff of Ukraine," dated June 12, 1997, to establish that changes in rates of duties stipulated in the Unified Customs Tariff are to be made only by the Parliament. However, temporarily, "until legislative regulation of issues involving the Unified Customs Tariff of Ukraine," the Cabinet of Ministers is granted the right to change customs duty rates on goods, except excise goods and goods for which duty rates are established by Ukrainian laws. Meanwhile, lowering duty rates for separate juridical and physical persons or on separate contracts, or exempting them from payment of the duty and postponing payment deadlines, are prohibited.

## **M. Membership in Free Trade Agreements**

Ukraine has signed free trade agreements with each of the former Soviet republics except Tajikistan. The agreement with Russia began unravelling in mid-2001, however, when Russia introduced VAT on Ukrainian imports. Ukraine also has a Partnership and Co-operation Agreement with the European Union (PCA). Under the terms of the agreement, Ukraine enjoys most favored nation status with the EU, but is not required to bind its own tariffs. Ukraine is also a party to the 1995 CIS free trade agreement. This agreement has never been effectively implemented, however. Ukraine participates in the Black Sea Cooperation Council, along with Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Macedonia and Turkey. It

is envisaged that the organization be developed into a free trade area. Ukraine has furthermore concluded trade agreements with 12 countries (Austria, Argentina, Armenia, Bulgaria, Canada, Estonia, Finland, Krygzstan, Latvia, Moldova, Russia and Switzerland). These agreements grant on a reciprocal basis most favored nation status to export-import operations with the countries concerned. As in the case of the PCA, Ukraine benefits via these agreements from the tariff concessions made by its partner countries who are WTO members without binding its own tariffs. Ukraine intends to become a full member of the Central European Free Trade Agreement (CEFTA), which is predicated on Ukraine first becoming a member of the World Trade Organization.

WTO membership has long been a proclaimed goal of Ukraine, and Ukraine has been engaged in the process of accession since 1993. In mid-2001, Ukraine will still in the middle of the negotiation process. Ukraine also still needed to pass significant changes in its legislation. The U.S. Department of Commerce has assigned a resident advisor to assist Ukraine in developing economic trade laws in conformity with WTO requirements.

### **A. Openness to Foreign Investment**

While the process of economic reform in Ukraine has been slower than in many other Eastern European countries, Ukrainian government officials state that their goal is to create a free market economy and that they actively seek foreign investment. Senior government officials, including the President and the Prime Minister, hold regular meetings with panels of foreign investors who provide advice on priority reforms. In 2001, western participants in these meetings reported that Ukrainian officials were more open to suggestions and comments than in the past. While the resulting mood was quite upbeat, all parties agree that the key will be action, not words. Ukraine must take significant measure to improve its investment climate before foreign investment is likely to increase significantly.

Although foreign direct investment (FDI) has risen since Independence, current levels fall short of fulfilling Ukraine's basic needs and pale in comparison to that of its Eastern and Central European neighbors. Through January 2001, cumulative FDI reached USD 3.866 billion or about USD 78 per capita. During 2000, USD 792.2 million was invested in Ukraine, a 5 percent increase over 1999. For comparison, annual FDI in Ukraine's neighbor, Poland, is nearly ten times as high.

A survey conducted by the International Finance Corporation (IFC), entitled "Ukrainian Enterprises in 2000," revealed that firms of all sizes agree that taxation -- both the overall tax burden and the administration of the tax regime -- ranks as the most serious barrier to investment. General macroeconomic conditions such as low demand and inflation were the second major obstacle, followed by anti-competitive behavior, including discriminatory practices, and a non-level playing field.

A report by the International Private Capital Task Force (IPCTF) and Sigma Bleyzer, entitled "Accelerating the Flow of International Private Capital to Ukraine," concluded that Ukraine is receiving only a fraction of potential FDI and that a series of economic policy changes could therefore lead to a rapid increase in FDI. Priority actions recommended in the study included: liberalize and deregulate business activities; provide a more stable and predictable legal environment (independent judiciary, meaningful legislation such as Draft Civil, Labor, Criminal, and Tax codes); improve



corporate and public governance and accelerate privatization; liberalize foreign exchange and trade regimes; facilitate financing in the financial sector; eliminate corruption; reduce political risks; and eliminate special incentives. According to the report, policies should be aimed overall at achieving transparency, simplicity, and predictability in the business sphere. While the report focused on foreign investment, the authors noted their conviction that the steps they were advocating would prove equally beneficial to domestic investors.

According to a Ukraine Investment Policy Review completed by the Organization for Economic Cooperation and Development (OECD), the shadow economy continues to distort the Ukrainian economy. The OECD report cited corruption, un-restructured Soviet-era industrial and agricultural sectors, a narrow tax base and slow privatization as factors that inhibit foreign investment. The report recommended the establishment of an independent judiciary, deregulation, and other legislative and institutional reforms. It also strongly recommended the adoption of a foreign investment policy that creates a level playing field for both foreign and domestic investors rather than relying on incentives and special economic zones. Improvement in rule of law was highlighted as one of the most significant problems and the adoption of new civil, tax, judiciary, and administrative codes was recommended as a possible solution. Inadequate corporate governance, tax regime, banking and nonbanking sectors, and trade and currency regimes were cited. Privatization and enterprise restructuring was criticized for lack of transparency and scale and public governance was described as “bloated” and subject to high state capture.

Key domestic legislation includes the law “On Foreign Investment,” passed in April 1996, which guarantees foreign investors equal treatment with local companies and provides potential privileges. The law permits exemption from customs duties for in-kind contributions of fixed assets imported into Ukraine from a company’s charter fund. Some restrictions to the exemptions apply and import duties must be paid if the enterprise sells, transfers, or otherwise disposes of the contributed property for any reason other than repatriation of foreign investment. The law also provides general guarantees against expropriation, unhindered transfer of profits and post-tax revenues, and a ten-year guarantee against changes in legislation that affect these basic protections.

The U.S.-Ukraine Bilateral Investment Treaty, which took effect November 16, 1996, provides U.S. investors further protection. However, international arbitration afforded under the treaty is to be regarded as a tool of last resort and is not very practical for solving the everyday problems that businesses continually face. Some investors have resorted to World Bank’s International Center for Settlement of Investment Disputes.

Ukrainian legislation restricts foreign participation to 49% or less in the charter capital of enterprises in certain sectors, such as insurance, publishing, and broadcasting sectors and the manufacture of weapons and alcoholic spirits. In “strategic” enterprises (including TV and radio stations) foreign shares cannot exceed 30%. In practice, foreign investment in many other sectors and individual enterprises is limited by laws or regulations that list specific investment provisions or which require the government to maintain majority stakes in “strategic” enterprises.

Ukraine’s anti-monopoly law requires that establishment of a legal entity, mergers, and acquisitions be approved by the anti-monopoly committee if the investment fulfills certain

criteria (e.g. acquiring a certain percentage of the voting rights in an enterprise). Nearly all equity investments, joint ventures with multiple participants, and share acquisitions require anti-monopoly committee approval, a lengthy and fairly costly undertaking. In February 2001, a number of amendments to regulations were made which related to the following: Grounds for carrying out extraordinary inspections; procedures for crediting; use of funds received from the payment of penalties imposed for violation of antimonopoly legislation; and interest accrued in cases of delay of penalty payments.

Privatization officially started in 1992 with the establishment of the State Property Fund. Privatization met strong bureaucratic and parliamentary resistance and was suspended in 1994. A November 1994 presidential decree instituted a new voucher-based mass privatization program. Prior to 1995, 1,200 medium to large enterprises were privatized through an employee lease-buyout program, whereby employees' leases were converted to ownership. Beginning in 1996, voucher sales began for medium and large industrial enterprises. A May 2000 privatization law radically changed the process. The new program provided for cash-based privatization via open tenders of large blocks of shares and controlling interests in strategically important enterprises. Additionally, this law banned privileged privatization to employees. The new policy helped facilitate the generation of UAH 2.73 billion (USD 390 million) in privatization revenues in 2000, exceeding the value of privatization revenues received during the last nine years. Most of the 2000 privatization revenues came from the sale of large machine-building, metallurgy enterprises, and oil refineries. While no restrictions were placed on foreign participation, the process of evaluating privatization tenders was often at times non-transparent, a factor which led to charges of discriminatory decision making.

The privatization of six regional energy companies (oblenergos) in 2000 and 2001 set a new standard for transparent, international privatization in Ukraine. A working group consisting of Ukrainian, U.S., and EBRD (European Bank for Reconstruction and Development) officials work with an investment advisor, Credit Suisse First Boston, and the Ukrainian State Property Fund cooperated to ensure that the privatization process matched the highest international standards for transparency and fairness. At the end of the process, Ukraine sold six energy distribution companies for \$160 million to strategic investors from the U.S. (AES) and Slovakia (East Slovak Energy Works). Despite the success, some Government officials expressed dissatisfaction with the low number of bidders and the President initiated an internal review of the privatization process. As a result of a "lessons learned" review, Ukraine decided to continue with this transparent, international approach to energy sector privatization. In future privatizations, however, it has committed itself to do more to mitigate investor risk and uncertainty in the market in order to attract more potential investors and to raise the value of objects being sold. Ukraine plans to continue its privatization of the 12 remaining power distribution companies in 2001 and will begin privatization of power generating companies in 2002.

In the first half of 2001, the government planned to raise UAH 2.7 billion (approximately \$ 490 million) cash through privatization, but only UAH 1.6 billion (\$294 million) was raised. The failure to meet the privatization revenue target is generally attributed to the slow pace of strategic privatization, particularly notable in the telecommunications sector where the Government had originally planned to move forward more quickly with the privatization of Ukraine's national telecommunication company, UkrTelecom. The Government has revised its plans and announced that UkrTelecom will be privatized by January 2002. Nevertheless, 85.7% of all medium and large enterprises (8,600 out of 10,000) had been privatized as of January 1, 2001. Volumes of production by private

enterprises exceed by 240% production of state-owned and municipal companies. These private enterprises account for 75.7% of Ukraine's industrial production.

## **B. Right to Private Ownership and Establishment**

The Constitution of Ukraine (June 28, 1996) guarantees the right to private ownership, including the right to own land. In addition, Ukraine's Law on Ownership, which was one of the country's first major parliamentary measures, specifically recognizes private ownership and includes Ukrainian residents, foreign individuals, and foreign legal entities among those entities able to own property in Ukraine. Moreover, the law permits owners of property (including foreign investors and joint ventures) to use such property for commercial purposes, to lease property, and to keep the revenues, profits and production derived from its use. The Law on Ownership does not, however, establish a comprehensive regime regulating the rights of ownership and the mechanisms for their transfer. Some difficulties have arisen over foreign acquisition of majority control of enterprises, with the government or the current management continuing to exercise effective control or veto power over company decisions.

The Land Code of Ukraine, adopted in 1992, regulates the ownership, use and disposition of rights and interests in land. The Code was adopted four years before the Constitution (1996) and is inconsistent with it in some of its provisions. Although the Land Code facilitated widespread private ownership of residential and dacha plots, the right to own land is still subject to substantial limitations. A new Land Code is being developed, and the draft allows foreign ownership of land for non-agricultural purposes. In addition to the proposed new Code, there are several presidential decrees that permit foreign ownership of enterprise land. The new Land Code would strengthen the legislative framework for foreign ownership.

Despite these decrees, law firms have generally advised foreign investors not to conduct land transactions based on presidential decrees that contradict the current Land Code and may be challenged in court. A new USAID land titling initiative will provide technical assistance to both reduce the cost of agricultural land titling and to directly support the issuance of land titles. President Kuchma has cited the issuance of agricultural land titles as one of his highest priorities.

In June 1999, President Kuchma issued a decree permitting mortgages on land and buildings, both private and commercial. However, banks are reticent to provide financial backing for the purchase of real or personal property. Another deterrent to bank lending is an underdeveloped legal system minimizing creditors' chances of seizing property. USAID has been instrumental in the creation of a pledge registry, the first of its kind in the former Soviet Union, which applies to individuals' obligations with regards to movable property and tax liens. Though rudimentary, the registry is nationwide, providing a more transparent lending market for personal property.

## **C. Protection of Intellectual Property Rights**

Ukraine's protection of intellectual property rights remains uneven. Ukraine is a signatory to a number of international agreements and conventions and has passed a large number of laws aimed at strengthening the protection of intellectual property. However, the legislative framework still contains significant loopholes and enforcement

of existing legislation is patchy. Intellectual property violations range from petty, small-scale counterfeiting to industrial-scale piracy with links to organized crime.

In June 2000, President Kuchma and former President Clinton announced a joint action plan to combat the large-scale music and software piracy of Ukraine's CD factories. The government of Ukraine failed to fulfill its obligations under the plan. As a result, in March 2001 the U.S. Trade Representative designated Ukraine a Priority Foreign Country under the Special 301 provisions of the U.S. Trade Act of 1974. As of June, 2001, USTR was completing the statutory investigation which could likely lead to trade sanctions and removal of Ukraine's duty-free privileges under the Generalized System of Preferences (GSP) in the event that the government fails to make sufficient progress fulfilling the IPR action plan. Copyright piracy also remains a problem in the market for music cassettes and movie videos.

Trademark piracy is a common problem for domestic and foreign companies with well-known consumer brand names. While there are examples of businesses cooperating with law enforcement officials on raids of counterfeiting production facilities and distribution centers, companies cannot expect law enforcement bodies to take a proactive role in combating trademark piracy. In addition, state agencies have in the past known to resell seized products as a source of revenue.

Ukraine has recognized the need to improve its protection of intellectual property, and support for needed changes is gradually growing within the government, the parliament and in society at large. The U.S. Government is supporting Ukrainian efforts to bring its legislation in line with the IPR-related conditions (TRIPs) for WTO membership.

#### **D. Performance Requirements/Incentives**

There are no known cases of performance requirements being imposed on routine foreign investors in Ukraine. Ukraine modified its foreign investment law of 1996 and law of investment activity of 1992 several times, thereby removing certain tax breaks previously accorded foreign investors, equalizing tax treatment of foreign and domestic investors. The scope and the ability to make foreign investments were also strengthened. There are no tax breaks provided for in the new laws, but the foreign investor is granted a number of state guarantees, the most important being unhindered and immediate repatriation of profits and stable regulations for the time of the investment.

At the beginning of June 1999, President Kuchma issued several decrees providing certain tax benefits for foreign investors in the areas of finance and investment and submitted the provisions of the decrees to the Parliament as proposed laws. Foreign investors are still exempt from customs duties for any in-kind contribution imported into Ukraine for the company's charter fund. Some restrictions apply, however, and import duties must be paid if the enterprise sells, transfers, or otherwise disposes of the contributed property for any reason.

#### **E. Transparency of the Regulatory System**

Over regulation of the Ukrainian economy is a legacy of the country's Soviet history and a major contributor to corruption. The government recognizes this problem and is moving to address it. A special "State Committee on Entrepreneurship" has been established and has opened ombudsman offices in every oblast (state) of Ukraine. In June 2000, new licensing laws were passed which provided greater transparency and simplified licensing procedures. The list of activities subject to licensing was reduced to 60, eliminating many subactivities, particularly for small business. The number of documents required for applications was reduced and a shorter turn-around time was established. License conditions, which under prior law were a condition precedent to issuing a license, are now conditions subsequent. Nonetheless, various ministries and state bodies continue to require many license-like permits. Bureaucratic procedures for obtaining permits and licenses are burdensome and confusing and significantly raise the cost of doing business in Ukraine, provide opportunities for corruption, and drive much activity into the burgeoning "shadow" economy. The challenge for 2001 and 2002 will be to consolidate the gains made at the federal level and to push the deregulation process down to the oblast and city level.

Certification is another area where the situation is improving. According to IFC's survey, in 2000 70 percent of all surveyed reported having undergone certification and 74 percent of these felt procedures were a burden. Recently passed legislation should provide some relief. A law, "On Standardization," introduces voluntary standards and requires that standards be set by legislative or government acts. A law, "On Assurance of Conformity," replaces mandatory certification for many types of products and permitted gradual correspondence of conformity assessment procedures to international standards and the "New Approach" directives of the European Union, including the principle of "presumption of conformity to standards." A law, "On Accreditation of Conformity Assessment Bodies," establishes a national accreditation body, separate regulation of accreditation and certification, and use of practice, standards, and procedures that apply for membership in the European Cooperation for Accreditation (ECA). All of these recent changes are so new that their impact would not yet be reflected in the IFC survey of business cited above.

While the process of deregulating the Ukrainian economy is proceeding, much remains to be done. According to the 2000 IFC survey of Ukrainian businesses cited earlier, 94 percent of all respondents reported that frequently changing legislation and regulation was the most acute problem in 2000, followed by customs and permit/permissions procedures. All firms surveyed reported having had to make some sort of unofficial payments related to regulatory and administrative issues and work time of senior management dealing with the state amounted to 16 percent. 86 percent of firms needed to obtain permits/permissions with 44 percent finding this a serious or major barrier to market entry. The most troublesome were in connection with land and construction.

## **F. Corruption**

On Transparency International's Year 2000 Corruption Perception Index, Ukraine ranked 87 (tied with Azerbaijan) out of 90 countries. Only Yugoslavia and Nigeria ranked worse. Corruption in Ukraine includes both administrative "petty" corruption (bribes) and "state capture," where public officials are improperly enriching themselves through their position and leading firms or oligarchs use their political influence to secure favorable policy and legislation, court decisions, and central banking conditions. Corruption is

ubiquitous and constitutes a major impediment to investment and business development. Donors, friendly governments, and potential trading partners have all pressed Ukraine's officials and leadership to take steps to reduce corruption and create more public awareness and support for anti-corruption efforts. Some corrupt acts have been criminally prosecuted, but many more have resulted in little or no action. Anticorruption campaigns in the past have been criticized as being politically or economically motivated. There is little evidence of a consistent anti-corruption effort by Ukrainian law enforcement agencies.

Corruption permeates much of Ukraine's court system, police, civil service and regulatory system. Conflict of interests abound as many public servants continue to own businesses while serving. Corruption is sometimes institutional, to the extent that certain government entities own or have close ties to businesses that compete with those they regulate. Government entities also use means that are off the balance sheet to pay for operations and expenses not funded by the state budget. A complicated, opaque, and unaccountable regulatory system has facilitated corruption. Low salaries add to the problem. The looming shadow economy continues to deprive the budget of needed funds and leadership the information it needs to make effective policy. It also encourages further unfair business practices and corruption, while discouraging further business investment and development. As the process of deregulating the Ukrainian economy proceeds, avenues for administrative corruption decrease.

## **G. Labor**

Ukraine has a well-educated and skilled labor force with a nearly 100% literacy rate (98.6%). Although the official unemployment level is low, (4.2%), this figure is misleading. Most experts agree (1) that reported unemployment is understated (with the real unemployment rate closer to 14%), (2) that underemployment at state enterprises continues, and (3) that employment in the informal sector accounts for a difficult to measure share of the total labor force.

Wages in Ukraine remain very low by Western standards. The nominal average monthly wage in Ukraine in 2000 and 2001 was UAH 250 (\$46.29 according to June 2001 exchange rates). Many Ukrainians are forced to work second and third unofficial jobs to make ends meet -- a factor that both complicates calculations of the true unemployment rate and that significantly adds to the shadow economy. While the exact size of the shadow economy is unknown, a 1998 report by the Harvard Institute for International Development estimated that the size of the informal economy is in excess of 70% of Ukraine's official GDP. While a significant portion of the Ukrainian labor force remains engaged in the shadow sector on either a full or part-time basis, recent simplified tax rates for the smallest businesses have encouraged a number of entrepreneurs to move from the shadow economy toward legitimate, tax-payer status.

Wage and pension arrears were drastically reduced in 2000. Both sets of arrears were completely eliminated in many sectors of the economy. Where arrears still exist, they tend to be relatively short -- one or two months rather than the six months to a year that was the case in the past. Although foreign investors may still encounter resistance in trimming a project's work force to an efficient level, the insistence of local administration and management on keeping a maximum number of people employed within an enterprise is beginning to wane. It is important for investors to remember that as in

Soviet days, in many cases, a Ukrainian enterprise is still expected to maintain much of the social infrastructure of their immediate community (schools for local children, cafeterias, some medical facilities, etc). While many local officials are willing to work with businesses to identify what services are essential, such arrangements should be finalized before investments are made.

Ukraine's industrial inheritance from the former Soviet Union, particularly its military-industrial complex, has produced excellent specialists, engineers, and programmers. However, these specialties were rarely commercialized in the Soviet command economy, leaving many Ukrainians poorly equipped for the demands of dynamic, information-based commerce. Ukrainian workers are generally more accustomed to "top-down" management practices and therefore fail to demonstrate initiative. However, a younger, more independent-minded generation is slowly moving into the general workforce, and finding personnel that function competently and independently is getting easier.

## **H. Efficiency of Capital Markets and Portfolio Investment**

Legal, regulatory, and accounting systems are not transparent enough in Ukraine and are not fully consistent with international norms. The reform process is advancing in these areas. Despite signs of growth, Ukraine's security market still lags behind international standards and reform has not advanced as quickly as in the banking sector. An effective portfolio investment regulatory system and the draft laws on Joint Stock Companies, and the Tax and Civil codes should be adopted. In the meantime, investors will continue to face low market confidence, high macro-economic risk, developing accounting standards, lack of accurate company information, and inadequate protection of minority shareholders' rights.

In June 1991, the Parliament of the then Ukrainian Soviet Socialist Republic approved a Law on Securities and the Stock Market, which marked the birth of a Ukrainian capital market. The Law outlined the existence of the following types of securities: stocks (registered, bearer, preferred, and common), government securities, general obligations bonds, corporate bonds, savings certificates, and promissory notes. Later decrees and amendments adopted from 1991 to 1995 added bond coupons, loan certificates, bank orders, savings books, and privatization certificates. In June 1995, the State Securities and Stock Market Commission was established, having administrative and disciplinary powers over issuers, investment funds, brokers and trading activities.

In 1996, the Ukrainian securities industry broker/dealer self-regulatory organization (SRO) and its nationwide, electronic trading system – PFTS was founded. As a Ukrainian over-the-counter market, PFTS remained the largest marketplace with 80% of secondary on shore trading through 2000. The PFTS market capitalization was \$2.2 billion at the end of 2000. Average monthly trade volume increased through 2000, with the \$24 million being monthly traded. PFTS Membership, 200, representing Ukrainian and Western banks, investment funds and broker/dealers companies, remained the largest and most influential of all the Ukrainian exchanges. For the four year period covering 1997 and 2000, PFTS exercised its SRO authority by carrying out over 200 inspections of companies and certifying over 500 traders (authorized persons of companies) who have access to trading. In addition, the SRO executed 27 disciplinary cases and 8 arbitration cases.

The Professional Association for the Registrars and Custodians (PARD) was established in July 1996, beginning as an association of registrars only. Ukraine has about 420 licensed registrars, more than half of which are PARD members. Beginning March 1997, the SSMSC started licensing "depository activities of custodians". Seventy legal entities are now registered as custodians, of which 32 are PARD members. The SSMSC granted PARD the legal SRO status in October 1997. PARD's main areas of activity include the following: (a) developing rules and standards for the registrar/depository industry; (b) providing information about changes in the legal environment; (c) maintaining relations with the media and the general public; and (d) providing training and other educational programs for members. PARD's main international contact is with its Russian counterpart, PARTAD. Geographically, member traders represent 16 cities throughout Ukraine, the bulk of which are in Kyiv, Kharkiv, Donetsk and Dnipropetrovsk.

The Ukrainian Association of Investment Business, created in 1996, is the only currently existing fund industry SRO. However, a component of future USAID financial market activity includes the establishment and development of a more progressive fund industry SRO.

The Interregional Depository and Clearing/Settlement Organization (MFS) was created in 1997 by a group of the largest Ukrainian banks and the National Bank of Ukraine. MFS has served as the foundation for the All-Ukraine Clearing Depository, the private industry owned and managed depository. The AUCD system was officially launched with USAID support in April 2000. The AUCD/MFS system will safeguard ownership records in all publicly traded enterprises, and efficiently transfer ownership in all actively traded enterprises.

Principle laws, decrees, and regulations governing Ukraine's financial markets include: Law on Securities and Stock Exchanges (1991), Law on Business Associations (1991), Presidential Decree on Investment Funds and Investment Companies (1994), Law on State Regulation of Securities Markets (1995), Amendments to Law on Business Associations (1996), Law on National Depository System (1997), Law on Accounting and Financial Reporting (1999), Bankruptcy Law (1999) and the Law on Collective Investment Institutions (received first reading 2000 and scheduled to receive second reading in 2001).

Passage of the Joint Stock Company Law is currently the single most pressing matter for corporate governance development. If ratified, the law would provide a much more sound and objective base for relations between enterprises and their shareholders. Additionally, revision of the draft Civil Code chapter titled "On Joint Stock Companies" would provide much-needed policy and regulation of companies.

Ukraine's State Stock Market Securities Commission (SSMSC) is the primary Ukrainian financial market regulatory body. The Commission and securities market institutions continue to face obstacles inhibiting sustained progress in market reform. First, the market regulatory structures in Ukraine continue to experience difficulty in attracting and retaining qualified professional staff due to non-competitive pay scales under the GOU civil service system. Second, a stronger enforcement program with rewards and penalties needs to be enacted. Because of the weak market, many companies practicing good corporate governance are not rewarded with increased investment and many companies practicing bad corporate governance are not exposed or subject to



financial penalties. Third, Ukraine is still struggling with macroeconomic and fiscal challenges necessary for a fully efficient securities market. The State continues to dominate in enterprise transactions so progress remains limited.

According to the State Stock Market and Securities Commission, there were 228 investment funds and investment companies (128 investment funds and 100 investment companies) operating in Ukraine at the end of 2000. This was less than it was at the beginning of year. During the same time period, the distribution of funds by regions remained the same, where approximately 70.3 percent of the total is concentrated in Kyiv, Kharkiv, Donetsk Regions and Republic of Crimea. The volume of stock trades in 2000 accounted for UAH 39 billion, a two-fold increase over the 1999. Trading corporate shares accounted for UAH 11 billion, trade of promissory notes accounted for UAH 22 billion, and trade of T-bills made UAH 3 billion. As of April 12, 2001, 857 stock traders were registered in Ukraine, 857 stock registrars, and 10 stock exchanges.

A Presidential Decree "On Additional Measures Regarding Development of Stock Exchange Market of Ukraine, passed in March 2001, approved a plan for the development of the stock exchange market for 2001 – 2005. The decree provided tax incentives, changes to the regulatory system, development of corporate management, development of the institutes of mutual investment, formation of stock exchange market infrastructure, development of the National Depository System, development of securities legislation, and training specialists in stock exchange market and corporate development fields. The law "On Mutual Investment Institutions" encourages creation of mutual funds, introduces a notion of licensed asset manager, regulates the establishment and operation of subjects of mutual investment, provision of guarantees of ownership, rights to securities, and protection of rights of participants of the exchange market.

An Order of the State Committee on the Issues of Regulatory Policy and Entrepreneurship, and Resolution of the State Securities and Stock Exchange Market Commission "On Approval of the Licensing Conditions for Carrying Out Professional Activities at the Securities Market," dated March 2001, established conditions for obtaining licenses for carrying out securities market activities.

A law "On Circulation of Promissory Notes in Ukraine," dated in April 2001, provided a framework for the circulation of promissory notes in accordance with Geneva Convention of 1930 - which introduced the Unified Law "On Negotiable and Ordinary Promissory Notes" subject to provisions stipulated in Appendix II to the Convention and the Geneva Convention of 1930 "On Settlement of Certain Conflicts of Laws On Negotiable and Ordinary Promissory Notes," and "On Stamp Duty In Respect of Negotiable and Ordinary Promissory Notes."

The Ukrainian banking system consists of the central bank - the National Bank of Ukraine (NBU) - and commercial banks of various classifications. NBU is responsible for monetary circulation, registration of commercial banks and overseeing their activities, and sometimes intervenes in the currency market to moderate changes in the exchange rate. As at January 1, 2000, 203 banks were registered in Ukraine, including 30 with foreign capital backing, and 9 with 100% foreign capital. Of the total 203 banks registered, 65 banks are actually operating. With the exception of two state-owned banks, Oshchadbank and Ukreximbank, the banks are all either joint-stock companies (JSC) (124 open JSC, 49 closed JSC) or limited liability companies (28).

In contrast to many other sectors of the Ukrainian economy, there has been real progress in structural reform in the banking sector over the last several years. Development of sound market-oriented banking system has been an important area of emphasis of international assistance, including from the United States.

All Ukrainian banks formally converted to international accounting standards on January 1, 1998 but international accounting standards are not required outside of the banking sector, requiring many foreign investors to keep double entry books, one entry with Ukrainian accounting standards and one entry following international standards (IAS) for use by the parent company. In July 1999, Parliament adopted the "Law on Accounting and Financial Accountability," which defined the main principles of accounting and other forms of financial accountability in accordance with international standards, to ensure that a company's records provide full and true information about its finances and business activities. This law is the basis for future reforms and the introduction of new accounting rules. Full implementation is likely to take two to three years. Adoption of IAS and International Auditing Standards has been recommended to improve transparency and compatibility and reduce the shadow economy. The Accountancy Chamber, the chief accounting body of the government, is advocating a rapid move to IAS.

NBU has passed a number of new regulations, such as loan-loss provisioning, loan classification and lending to insiders and related parties, which are in line with Western practice. Foreign licensed banks may carry out all the same activities as domestic banks and there is no ceiling on their participation in the banking system. However, laws to enable NBU needed authority to deal with banks in trouble should be passed. Some measures were introduced to make it easier to identify bad loans and avoid possible crises, but many banks continue to have many bad loans and they continue to lack resources to provide credit to serve as a source for investment. Loans that are made are short-term and at high interest. Bank capitalization is small and subject to risk in the event of currency devaluation.

Ukrainian financial markets do not seem to have such complex "cross-shareholding" and "stable shareholder" arrangements as are found in Asian markets. However, foreign investment through mergers and acquisitions is restricted in Ukraine, but for other reasons such as underdeveloped legislation and unfair treatment toward minority shareholders by company insiders.

Ukraine is still a cash economy, but the Ukrainian credit card market is promising and rose two-fold during January-April, 2001. Ukrainian banks have been issuing Visa and Europay cards since 1997. The number of the Europay International and Visa International plastic cards issued in Ukraine is expected to reach 1.5 million by the end of 2001. Currently, the number of plastic cards issued by Ukrainian banks made 1.018 million as of March 1, 2001. The increase in the number of automatic teller machines (ATMs) to 536 is directly linked with the development of the payment-cards business. In an effort to fight plastic fraud and educate public in plastic cards, ten large Ukrainian banks created a forum of plastic cards' safety and payments in March 2001.

## **I. Conversion and Transfer Policies**

The April 1996 Foreign Investment Law guarantees foreign investors the “unhindered transfer” of profits, revenues, and other proceeds in foreign currency after covering taxes and other mandatory payments. Ukraine’s new currency, the hryvnia, was introduced in 1996 and is traded in Ukraine against the U.S. dollar and other currencies. The dollar-hryvnia exchange rate has remained quite stable for more than a year, with the exchange rate generally staying between 5.5 and 5.7 hryvnia to the U.S. dollar.

There are currently no limitations on the frequency of repatriation of earnings. In general, foreign exchange is rapidly available at market-determined rates, and investors can convert their earnings into foreign currency through commercial banks, which purchase foreign currency for the investor at the Interbank market. Commercial banks can trade foreign currency among themselves or participate in electronic currency trading at the Ukrainian Interbank Currency Exchange (UICEX). Due to the August 1998 financial crisis, the National Bank of Ukraine (NBU) put into place a number of capital controls. Investors should be aware that such regulations change regularly and the NBU is often forced to protect thin foreign currency reserves. However, since spring of 1999 there has been a liberalizing of the foreign exchange market.

Effective February 2001, NBU regulations on international private currency transfers permitted residents to transfer up to USD 300 abroad without opening a bank account. NBU also increased the volume of funds which may be transferred abroad by private persons without prior permission, including assistance to a relative residing abroad -- no more than USD 1000 per month (up from the USD 500 allowed previously) and court fees - no more than USD 5000.

An NBU resolution “On Approval of Amendments to the Instruction on the Procedures for Opening and Operation of Accounts in Foreign and National Currencies,” dated March 2001, approved amendments to the Instruction “On the Procedures for Opening and Operation of Accounts in Foreign and National Currencies.” Under the amendments, non-residents and their representative offices may open current accounts in national and foreign currencies as well as deposit accounts. Prior to providing the bank with a notice evidencing the registration of the account the tax authorities, a business entity may carry out only crediting operations on such account. From now on a client shall be responsible for registering opened accounts with the tax authorities.

In May 2001, NBU recommended that commercial banks announce their clients’ intentions to sell on the Interbank currency exchange in advance if the will exceed USD 500,000. According to NBU, substantial currency resources enter Ukraine from non-residents for the purchase of state properties being privatized, influencing the currency market. NBU proposed to amend privatization legislation in order to obviate the need to convert currency into hryvnia for the purchase of privatized properties. Currently, investors must convert half of their foreign currency revenues to the national currency. Effective early May, a law “On Circulation of Promissory Notes in Ukraine regulating the issuance and circulation of promissory notes in accordance with the 1930 Geneva Convention Providing a Uniform Law for Bills of Exchange and promissory Notes with certain exceptions and amendments. The law provides more opportunity for payments in foreign currency. Also in May, the Criminal Code was amended to eliminate criminal charges for illegal trade of hard currency in favor of administrative penalties, release of those imprisoned on such charges, and cancellation of sentences.

## **J. Expropriation and Compensation**

Under the 1996 law on foreign investment, a qualified foreign investor is provided guarantees against nationalization, except in cases of national emergencies, accidents, or epidemics. However, some incidents with foreign investors have caused concern. In one case, the U.S. Overseas Private Investment Corps determined in 1999 that an expropriation insurance claim by a U.S. company was valid and paid the claim. OPIC is now seeking to recover compensation from GOU for the funds paid out in the claim.

## **K. Dispute Settlement, Including Enforcement of Foreign Arbitral Awards**

Ukraine needs to improve rule of law and adopt a new civil code; tax code; judiciary law; and administrative law. Lack of access to fair and impartial dispute resolution mechanisms and inability to enforce domestic court and international arbitration decisions are a frequent source of lingering investment disputes. Other complaints include overzealous tax collection, sudden and drastic tariff hikes, unilateral rescission and abrogation of valid contracts and licenses, and outright corruption. A number of corporate governance problems are a concern such as limited disclosure, capital restructuring without shareholders' consent, asset-stripping, and voting fraud.

At the heart of the disputes is corruption, lack of transparency in Ukraine's business environment, the problem of authority (or lack thereof), the lack of an independent judiciary and non-implementation of arbitration decisions. Ukrainian laws and regulations are vague and open to considerable leeway in interpretation, providing ample corruption opportunities for officials at every bureaucratic layer. Xenophobic attitudes, especially at the regional level, also play a role as foreign investors are all too often seen as competitors of local firms and their government "sponsors."

Although high-level Ukrainian government officials in Kyiv are aware of the problems, and are sensitive to the needs of foreign companies, the difficulty lies in the middle levels of the bureaucracy. There are simply too many officials, both in the various layers of government and at the enterprise level, who have a strong, vested interest in the status quo.

In the past, American firms that operated for several years in joint ventures with a Ukrainian firm experienced difficulties once the JV started to show a profit. After it became clear that the firm had established itself on the Ukrainian market, the Ukrainian partner attempted -- through various illegal or semi-legal means -- to force out the American partner. The number of such cases reported to the Embassy has declined to some extent but investors continue to voice similar complaints.

In February 1994, Ukraine enacted an international commercial arbitration law. The law parallels commercial arbitration laws set forth by the United Nations Commission on International Trade Law and is therefore in accordance with international standards. The law covers a wide range of international commercial transactions, reflects the principles of equality and fair treatment of parties, provides for a supportive relationship between the courts and arbitration tribunals, and includes basic provisions for the functioning of arbitration proceedings where the parties themselves have not made necessary provisions. According to Ukraine's law on foreign investment, disputes between U.S. investors and the state are to be considered by Ukrainian courts of arbitration. Ukraine

is also a member of the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards. Some parties have been able to enforce foreign arbitration awards in Ukraine, although there has not been universal success. (Should update as to amendments changes regarding 1994 international commercial arbitration law and application of NY Convention of 1958.)

A new Civil Code passed in June of 2001 should improve the regulation of all commercial relationships in Ukraine. The Code addresses private ownership protection, freedom of contract and entrepreneurship, and provides a unified framework for economic regulations and future legal reforms such as the draft Joint Stock Company law, Land Code, and Tax Codes.

Overall dispute settlement remains weak in Ukraine. Most U.S. businesses avoid the court system because the local and national court systems are burdensome and highly unpredictable. Some investors have reported instances in which the Ukrainian judicial system appeared subject to considerable political interference and/or suffered from corruption and inefficiency. Even when firms receive favorable rulings from Ukrainian courts, the country's judicial system lacks the mechanism necessary to enforce court judgments in their favor.

#### **L. Political Violence**

While Ukraine experienced an increase in political demonstrations over the past year, the demonstrations were relatively peaceful in nature with only a few scattered incidents of violent behavior. On those few occasions when violence did occur, it was limited to interaction between police and demonstrators and did not involve the population at large. The likelihood of widespread politically inspired violence that would affect foreign property interests remains relatively low.

#### **M. Bilateral Investment Agreements**

The Bilateral Investment Treaty between the United States and Ukraine came into force on November 16, 1996. The following countries have also signed bilateral investment agreements with Ukraine: Austria (1996), Argentina (1995), Armenia (1994), Azerbaijan (1997), Belarus (1995), Bulgaria (1994), Canada (1994), Chile (1995), China (1992), Cuba (1995), Croatia (1997), the Czech Republic (1994), Denmark (1992), Egypt (1992), Estonia (1995), Finland (1992), France (1994), Georgia (1995), Germany (1993), Greece (1994), Indonesia (1996), Iran (1996), Israel (1995), Italy (1993), Hungary (1995), Kazakhstan (1994), Kyrgyzstan (1993), Latvia (97), Lebanon (1996), Lithuania (1994), Macedonia (1998), Moldova (1995), Mongolia (1992), the Netherlands (1994), Poland (1993), Russia (1998), Slovakia (1994), Slovenia (1999), South Korea (1996), Spain (1998), Sweden (1995), Switzerland (1995), Turkmenistan (1998), Turkey (1996), UK (1993), Uzbekistan (1993), Vietnam (1994), Yugoslavia (2001).

#### **N. OPIC and Other Investment Insurance Programs**

**Overseas Private Investment Corporation:**

The Overseas Private Investment Corporation (OPIC) provides financing for projects in Ukraine and offers insurance to U.S. investors against the risks of expropriation and political violence in Ukraine. The U.S.-Ukraine OPIC Agreement was signed in Washington on May 6, 1992. Since January 1994, OPIC has approved investment insurance totaling more than USD 133 million for seven projects in Ukraine. Additionally, three OPIC supported investment funds have made investments totaling USD 54,000,000 in 31 private companies located in Ukraine. OPIC is currently in negotiation with GOU to recover monies paid out to a U.S. claimant whose investment was expropriated. OPIC's support of additional projects in Ukraine will depend on progress in resolution of this dispute.

**Export-Import Bank:**

In spring 1992, the U.S. Export-Import Bank reached an agreement with the Export-Import Bank of Ukraine to support transactions involving the export of U.S. goods to Ukraine. The Export-Import Bank requires a GOU state guarantee as a precondition to making loans to Ukraine, and since GOU refuses to issue state guarantees, ExIm is currently inactive in Ukraine. This situation could change within the coming months.

**Multilateral Investment Guarantee Agency:**

The Multilateral Investment Guarantee Agency (MIGA) is an independent member of the World Bank Group, which provides guarantees against political risk to foreign investors in connection with new investment in developing member countries. Forms of investment which can be covered by MIGA include equity, loans, loan guarantees, and loans made by financial institutions (as long as MIGA is also insuring part of the foreign equity in the project enterprise). Certain non-equity direct investments may also be eligible, such as technical and management contracts and franchising and licensing agreements

**O. Capital Outflow Policy**

It was previously estimated that \$10-20 billion of Ukrainian capital has been "hidden abroad" since 1991. Ukraine's investment policy has been heavily focused on attracting this offshore money back to Ukraine, but with little success so far. Some experts believe that flight of capital slowed in 2000 and inflow was rejuvenated due to investment opportunities created by the economic growth and privatization.

**P. Major Foreign Investors**

As of June 2001, major foreign investments made in Ukraine were channeled into: (a) telecommunications – Utel, a long-distance and international telephone services joint venture with foreign shareholders AT&T (USA), PTT Telecom (Netherlands), and Deutsche Bundespost Telecom (Germany), and the UMC joint venture (with contributions from PTT Telecom, Deutsche Bundespost Telecom, and Telecom Denmark); (b) tobacco - R.J. Reynolds, Philip Morris, and Reemstma; (c) soft drinks - Coca-Cola and PepsiCo; (d) food processing - Cargill, Kraft Jacobs Suchard; (e) consumer goods - Procter & Gamble; (f) detergents - SC Johnson; (g) electric power – Westinghouse-Siemens (Germany-USA), AES Corporation (USA), ABB (Swiss-Swedish-US), Northland Power (Canada); (h) oil & gas – Lukoil (Russia), TNK

(Russia), Kazakhoil (Kazakhstan), JV UkrCarpatOil (Carpatsky Petroleum Corp., USA), JV Poltava Petroleum Company (JKX Oil & Gas UK), JV Eurogas Ukraine (Eurogas USA, RWE-DEA Germany), USENCO (USA.); (i) agribusiness - Cargill Ukraine; (j) fast food - McDonald's; and (k) construction – American Industrial Development Corporation (AIDCO), Best International (USA), Interwindows (USA), OTIS (USA), Western NIS Enterprise Fund, Knauff (Germany), Henkel Bautechnik (Germany), JOBI (Austria.)

## **A. Brief Description of the Banking System**

The Ukrainian banking system consists of the central bank - the National Bank of Ukraine (NBU), and commercial banks of various classifications. The NBU is responsible for monetary circulation, registration of commercial banks and oversight of their activities, and sometimes intervenes in the currency market to moderate changes in the exchange rate. As at January 1, 2001, 195 banks were registered in Ukraine, including 31 with foreign capital backing, and 7 with 100% foreign capital. Of the total 195 banks registered, 153 banks are actually operating. With the exception of two state-owned banks, Oshchadbank and Ukreximbank, the banks are all either joint-stock companies (JSC) (118 open JSC, 49 closed JSC) or limited liability companies (26). In 2000, MicroFinance Bank was the only one new bank registered in Ukraine.

Eight banks, whose net assets exceed UAH 1 billion, control much of the capital and political power in Ukraine: Prominvest Bank, Aval, Privatbank, Ukreximbank, Oshchadbank, Bank Ukrayina, Ukrsofsbank, and the First Ukrainian International Bank (PUMB).

While the sector is relatively healthy by regional standards, financial intermediation remains weak. At the end of 2000, the sector's total assets were equivalent to about USD 5.5 billion, and the total banking capital was reported to stand at around 30 per cent of total liabilities.

Problems common to all commercial banks in Ukraine include: uncertain macroeconomic conditions; the value of credit resources; and the threat that inflation will not be kept under control. The banks remain risk-averse: the spreads between lending and deposit rates are high and loans are mainly short-term. The majority of commercial bank loans are for 90 days or less, with most terms being 30 days or less. Total bank lending is estimated at around 10 per cent of GDP. The average percentage of "problem loans" in the Ukrainian banking system was calculated at 16.4% in 2000.

Ukraine's payment system is reliable. All domestic payments – irrespective of the amount - are carried out fully electronically through the clearing center and the 42 branches of the NBU. The average time for payment transfer is between ten minutes and two hours. The transfer of payment orders in foreign currencies is made either through a cover at the foreign partner-bank, or through the NBU's international settlements department. Banking was the first sector in Ukraine to convert to International Accounting Standards (IAS).

Ukraine has adhered to a number of international legal instruments pertaining to international payments via checks, bills of exchange, letters of credit, and collection arrangements. The safest method of receiving payment for U.S. exports is through an irrevocable letter of credit (L/C). To carry out hard currency transactions, a bank has to

be authorized by the NBU. Authorized Ukrainian commercial banks are members of SWIFT (Society for Worldwide Inter-bank Financial Telecommunications).

Ukrainian banks, depending on the details of their NBU license (there are approximately 30 separately licensed banking activities), offer the following services: account-keeping in UAH and foreign currencies; domestic and international payments; cash operations; documentary operations; lending; currency conversion; deposits; operations with securities; brokerage services; trusteeship of assets and customer securities portfolios; financing of investments on behalf of owners or trustees of invested funds; consulting and analytical services; precious-metals trading in the Ukrainian market; purchase and sale of currency in the domestic interbank and international markets.

The Verhovna Rada in early December 2000 adopted the Bill on Banks and Banking, outlining the structure of the banking system, economic, organizational and legal grounds for reorganization and liquidation of banks. The Bill introduces a differentiated approach to the definition of the minimum required level of authorized capital of a commercial bank, depending on the scope of territory on which it operates. In particular, the minimum size of authorized capital at the moment of registration of a regional corporate bank cannot be less than EURO 1 million, for commercial bank operating on the territory of a certain region - EURO 3 million, and for those working on the whole territory of Ukraine - EURO 5 million.

Ukraine has one of the most liberal sets of regulations for foreign bank participation in the CIS. Foreigners are permitted fully participate in the domestic banking sector, although they must establish a resident office one year before applying for a banking license. The minimum authorized statutory fund is ECU 10 million, a small sum by international standards. Foreign banks service both their multinational clients and Ukrainian blue chips. Since 1997 foreign banks such as Credit Lyonnais (France), Raiffeisenbank (Austria), ING (Netherlands), Kreditanstalt (Germany), and Citibank (USA) have established full subsidiaries. Apart from western banks, banks from neighboring countries such as Russia (Alfa Bank, National Reserve Bank), and Poland (Kredyt Bank, PEKAO) are also entering the market.

## **B. Foreign Exchange Controls**

Current legislation stipulates that Ukrainian currency is the only legal form of payment on the territory of Ukraine, which may be accepted without limitation for the settlement of debts and obligations. Currency decrees stipulate that individual licenses have to be obtained from the NBU to carry out the following operations:

- i) use of hard currency on the territory of Ukraine as a form of security;
- ii) a resident of Ukraine opening a bank account abroad;
- iii) a resident making an investment abroad, except in the event of inheritance, the acquisition of shares, or an ownership interest by a resident in a non-Ukrainian legal entity;
- iv) obtaining or granting of loans in hard currency by a resident of Ukraine, if the amount of the loan is in excess of the minimum levels established by the NBU;
- v) making hard currency payments abroad from Ukraine (except instances listed in the following paragraph).

Individual licenses are not required for the following transactions:



- i) payments abroad in hard currency, which are carried out by residents in order to fulfill obligations in such currency to non-residents in connection with payment for goods, services, intellectual property rights, and other property rights;
- ii) payments abroad in hard currency made in the form of interest payments on loans and profits from foreign investments;
- iii) transfer, upon the termination of investment activities, of hard currency from Ukraine, which had been previously invested in Ukraine.

Currently, the official exchange rate, auction rate, and "street" rate fluctuate at similar levels. According to the Foreign Investment Law, the exchange rate for converting foreign investments into Ukrainian currency is the rate established by the NBU.

### **C. General Financing Availability**

Credit availability in the private sector is scarce, as commercial banks remain risk-averse; the spreads between lending and deposit rates are high and loans are mainly short-term. The discount rate was lowered from 29% (April, 2000) to 19% (June, 2001). The reduction of rates has only marginally influenced the banking sector, but this trend will undoubtedly stimulate banks to increase their medium-term credit activity. The majority of commercial bank loans are for 90 days or less, with most terms being 30 days or less. This precludes loans from Ukrainian commercial banks for virtually any transaction – a major problem affecting a wide range of business in Ukraine.

### **D. How to Finance Exports/Method of Payment**

Ukraine has adhered to a number of international legal instruments pertaining to international payments via checks, bills of exchange, letters of credit, and collection arrangements. The safest method of receiving payment for a U.S. export is through an irrevocable letter of credit (L/C). To carry out hard currency transactions, a bank has to be authorized by the NBU. Authorized Ukrainian commercial banks are members of SWIFT (Society for Worldwide Inter-bank Financial Telecommunications).

### **E. Types of Export Financing and Insurance Available**

1. The **Bankers' Association for Foreign Trade (BAFT)** is an association of banking institutions dedicated to fostering and promoting American exports, international trade, finance, and investment between the U.S. and its trading partners. BAFT's access to the Export Capital Program (AXCAP) has greatly strengthened BAFT's commitment to American exports. AXCAP serves as a "national catalog" listing banks and other companies involved in trade finance and trade finance services. For further information, contact:

Bankers' Association for Foreign Trade  
2121 K Street, N.W., Suite 701, Washington, DC 20037  
Tel: (202) 452-0952; Fax: (202) 452-0959  
E-mail: [baft@baft.org](mailto:baft@baft.org)  
<http://www.baft.org>

2. The **Export-Import Bank of the United States (Ex-Im Bank)**, an independent U.S. Government agency, helps to finance the overseas sale of U.S. goods and services. Ex-

Im Bank programs for Ukraine include short-term and medium-term coverage for sovereign risk transactions. Under its short and medium-term programs, Ex-Im Bank requires an indication of host government support before accepting an application. In late spring 1996, the Export-Import Bank approved the guarantee of a \$171 million loan from Societe Generale for the sale of John Deere agricultural equipment to Ukraine. This was the Ukrainian government's first request for Ex-Im Bank guarantees since the Bank reopened its programs in Ukraine in May 1995. For further information, contact:

Ex-Im Bank  
811 Vermont Ave., N.W., Washington, DC 20571  
Tel: (800) 565-3946; Fax: (202) 565-3380  
<http://www.exim.gov>

3. The **Overseas Private Investment Corporation (OPIC)** is an independent, self-sustaining U.S. Government agency that encourages private sector U.S. investment overseas by providing investment finance and insurance to American businesses large and small making long-term investments. OPIC has provided more than \$3.5 billion in combined project financing and political risk insurance to U.S. companies sponsoring projects in Armenia, Georgia, Kazakstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan.

The U.S.-Ukraine OPIC Agreement was signed in Washington on May 6, 1992. The Agreement enables the U.S. to provide investment insurance, project financing, and various investor services to private U.S. investors for sound business projects in Ukraine. Since the signing, OPIC has led several investment missions to Ukraine and hosted several reverse investment missions by Ukrainian business representatives to the United States.

OPIC risk insurance and financing programs are also available to U.S. investors in Ukraine. OPIC has also facilitated conferences and exchanges between the two countries to increase business relations.

Key contacts are:

James Gale, Investment Development Manager  
Overseas Private Investment Corporation  
1100 New York Ave.  
Washington, DC 20527-0001  
Tel: (202) 336-8628; Fax: (202) 408-5145  
<http://www.opic.gov>  
E-mail: [info@opic.gov](mailto:info@opic.gov)

LaWana Gray, Information Officer  
Tel: (202) 336-8663

4. The **U.S. Small Business Administration (SBA)** does not have a specific program designed for the NIS, but all qualified U.S. companies doing business in the region may apply for SBA financing. SBA guarantee programs include the Regular Business Loan Guarantee Program, which provides loan guarantees to small business for fixed assets and working capital; and the Export Revolving Line of Credit Program, through which a

business can receive a government-guaranteed loan to finance labor and materials for manufacturing or wholesaling, developing foreign markets, financing foreign accounts receivable and, in some cases, business travel and trade show participation. The International Trade Loan Program provides long-term, fixed-asset financing and short-term working capital to purchase or upgrade facilities or equipment and to make other improvements within the U.S. for the production of foods and services. For further information, contact:

Small Business Administration  
409 3rd St, S.W., Washington, DC 20416  
Tel: (800) 827-5722; Fax: (202) 205-7064  
<http://www.sba.gov>

## **F. Types of Project Financing Available**

1. The **European Bank for Reconstruction and Development (EBRD)** established an office in Kyiv in 1993. As of 30 December 2000 the European Bank for Reconstruction and Development (EBRD) had signed (net of completed and restructured) 38 projects in Ukraine totalling EUR 1,2 billion, of which 27 are in the private sector. As of 30 December 2000, the EBRD's commitments in Ukraine totaled over \$ 1.2 billion, covering all major sectors of the Ukrainian economy – including food processing, the financial sector, oil and gas extraction, transportation, agricultural services, and telecommunications. \$611.8 million of the EBRD's commitments (51 %) went to the private sector, while \$592.3 million (49 %) went to the public sector. (See section G for EBRD projects.)

Contact information for project proposals and inquiries:

### **Olivier Descamps**

Business Group Director for Southern  
and Eastern Europe and the Caucasus  
Tel: +44 207 338 7164  
Fax: +44 207 338 6599

### **Lesia Haliv**

Country Liaison Officer  
Tel: +44 207 338 7881  
Fax: +44 207 338 7218/6159  
E-mail: [halivl@ebrd.com](mailto:halivl@ebrd.com)

EBRD  
One Exchange Square  
London EC2A 2JN  
<http://www.ebrd.com>

For information on the procurement process, contact the Procurement Unit at:

Tel: (44-171) 338-6534; Fax: (44-171) 338-7472  
<http://www.ebrd.com/english/procure/index.htm>

For general information on the EBRD and other Multilateral Development Banks, contact:

Janet Thomas, Acting Director  
U.S. Department of Commerce  
Ronald Reagan Building, Mezzanine Level  
Washington, DC 20230  
Tel: (202) 482-3399; Fax: (202) 482-3914

(Ukraine contact information may be found in Chapter 11, Appendix G.)

2. The **World Bank** – Ukraine joined the World Bank in September 1992, with the first loan of \$27 million for an institutional building project approved in June 1993. The World Bank approved a new Country Assistance Strategy (CAS) for Ukraine in September 2000, aimed to assist the government and civil society in obtaining sustained growth and poverty reduction. The World Bank granted Ukraine the last tranche of the current financial sector adjustment loan (SAL) at the end of January 2001, after its board has decided to cut the allotment from USD 100 million to USD 60 million following its December mission which found that Ukraine had not implemented the credit agreement in full.

For more information contact:

World Bank Headquarters  
1818 H Street NW, Washington, DC 20433  
Tel: (202) 477-1234; Fax: (202) 477-6391  
<http://www.worldbank.org>

(Ukraine contact information may be found in Chapter 11, Appendix G.)

3. The **International Finance Corporation (IFC)** is a member of the World Bank Group and a specialized UN agency. The IFC was established in 1956 to encourage private sector activity in developing and emerging economies. Ukraine became a member of the IFC in the fall of 1993.

Complementing its core investment activity, the IFC provides technical assistance and consultation to business and government in developing countries and economies in transition. The focus of this assistance is privatization, SME and capital markets development. Currently the IFC is working on four technical assistance projects in Ukraine: divestiture of unfinished construction sites (financed by the United States Agency for International Development - USAID), corporate governance (financed by the Canadian Agency for International Development, the British Know How Fund and the Government of Japan), business development (financed by USAID), and land reform (financed by the Canadian Agency for International Development, the governments of the Netherlands, Japan, Sweden, Norway, and Denmark, and the British Know How Fund).

International Finance Corporation  
212 Pennsylvania Ave., N.W., Washington, DC 20433  
Tel: (202) 477-1234; Fax: (202) 974-4384

<http://www.ifc.org>

(Ukraine contact information may be found in Appendix G.)

4. The **U.S. Trade and Development Agency (TDA)** offers U.S. businesses a variety of tools to help increase American exports in the face of stiff international competition. Through the funding of feasibility studies, orientation visits, specialized training grants, and various forms of technical assistance, TDA enables American businesses to become involved in the planning stage of infrastructure and industrial projects in middle-income and developing countries. TDA's assistance to the NIS has focused on the funding of feasibility studies, particularly those that create long-term cooperative relationships between U.S. firms and their NIS counterparts. Since 1991, TDA has approved about \$80 million for feasibility studies of more than 200 major projects in the NIS. Exports of U.S. goods and services related to those projects already total over \$600 million.

For further information, contact:

Daniel Stein, Regional Director  
Melissa A. Eustace, Country Manager  
U.S. Trade and Development Agency  
1621 North Kent St., Suite 200  
Arlington, VA 22209-2131  
Tel: (703) 875-4357; Fax: (703) 875-4009  
E-mail: [info@tda.gov](mailto:info@tda.gov)  
<http://www.tda.gov>

5. The **Western NIS Enterprise Fund**, capitalized with \$150 million by the U.S. Government, has been fully operational in Ukraine, Belarus, and Moldova since June 1995. The Fund provides equity capital and loans in amounts between \$500,000 and \$5 million to small and medium-sized private companies involved in food processing, distribution, construction materials, and other light manufacturing industries. The Small Business Loan Fund, a separate fund managed by Western NIS, makes commercial loans under \$100,000 to small businesses and entrepreneurs. The Fund has committed over \$74 million to Ukraine and Moldova from September 1996 to July 2001.

Natalie A. Jaresko, President & CEO  
Western NIS Enterprise Fund  
15 West 39th Street, 11th Floor, New York, NY 10018  
Tel: (212) 556-9320; Fax: (212) 556-9321

Mark Ivashko  
Western NIS Enterprise Fund  
4 Muzeyny Provulok, 3rd Floor, Kyiv 01001, Ukraine  
Tel: (380-44) 490-5580; Fax: (380-44) 490-5589

6. The **Eurasia Foundation**, a privately managed grant-making organization established with financing from USAID, supports technical assistance, training, education, and policy programs. Currently, the Eurasia Foundation administers two programs in Ukraine: 1) Economic Education and Research Consortium (EERC) educational program, and 2) Small Business Lending Program (SBLP). A third program, the Small Grant Program (SGP), was suspended in fall 1999.

The Eurasia Foundation also awards grants to American organizations with partners in the NIS and directly to NIS organizations involved in projects that promote economic and democratic reform. In 1998, Eurasia issued \$2.5 million in grants to 200 Ukrainian NGO's in business development, education, and management training; economic education and research; electronic communications; media; NGO development; public administration; and rule of law.

1350 Connecticut Ave., N.W., Suite 1000  
Washington, DC 20036  
Tel: (202) 234-7370; Fax: (202) 234-7377  
<http://www.eurasia.org>

Richard Sheparo  
Regional Director, Eurasia Foundation  
26, Lesi Ukrainki Vul., #506, Kyiv 252133, Ukraine  
Tel/Fax: (380-44) 295-1065, 295-7402  
E-mail: [eurasia@eurasia.freenet.kiev.ua](mailto:eurasia@eurasia.freenet.kiev.ua)

Small-Business Loan Program  
26, Lesi Ukrainki Vul., #506, Kyiv 252133, Ukraine  
Tel/Fax: (380-44) 294-8209  
E-mail: [sblp@efsblp.freenet.kiev.ua](mailto:sblp@efsblp.freenet.kiev.ua)

## **G. Types of Projects Receiving Financing Support**

### **1) European Bank for Reconstruction and Development (EBRD) Projects approved in 2000:**

#### **Cerealia Boryspil Cereal Plant**

Equity stake alongside Sweden's Cerealia food group to support the expansion of Boryspil, Ukrainian leading breakfast cereal company.  
Approved April 4, signed June 29.  
Funds approved - USD 3.3 mln. Total investment - USD 8.6 mln.

#### **Ukraine Enterprise Support Facility**

Framework facility for selected banks to on-lend to qualifying private sector enterprises, increasing the supply of much-needed term finance.  
Approved May 3.  
Funds approved - USD 27.9 mln. Total investment - USD 27.9 mln.

#### **Credit Lyonnais Ukraine**

Sub-project of Ukraine Enterprise Support Facility.  
Approved May 3.  
Funds approved - USD 5.4 mln. Total investment - USD 5.4 mln.

#### **First Ukrainian International Bank**

Sub-project of Ukraine Enterprise Support Facility.  
Approved May 3, signed October 26.  
Funds approved - USD 10.7 mln. Total investment - USD 10.7 mln.

**West Ukrainian Commercial Bank**

Sub-project of Ukraine Enterprise Support Facility.

Approved May 3.

Funds approved - USD 2.5 mln. Total investment - USD 2.5 mln.

**Ukrrihflot II**

To assist in the current finance of five river/sea dry cargo vessels and enable Ukrrihflot to acquire two new vessels, all built in Romania.

Approved September 5, signed October 20.

Funds approved - USD 6.1 mln. Total investment - USD 60.6 mln.

**Fuel Purchase Loan Facility**

Seasonal working capital facility, in support of Ukraine's energy sector reforms, to help four government-owned generating companies to buy oil.

Approved October 3, signed October 6.

Funds approved - USD 107.5 mln. Total investment - USD 107.5 mln.

**Rehabilitation of M06 Highway and Reform of Road Sector Financing**

Loan to rehabilitate sections of one of Ukraine's key roads, and assist with restructuring of road sector finance and administration.

Approved October 31, signed December 11.

Funds approved - USD 75.0 mln. Total investment - USD 100.0 mln.

**Ista Center**

Corporate loan and revolving capital facility to support the expansion of the company's battery production facility.

Approved November 28, signed December 14.

Funds approved - USD 10.7 mln. Total investment - USD 13.1 mln.

**Ukrainian International Airlines**

Equity investment to help the airline meet market demand for passenger and cargo services between Ukraine and Western Europe.

Approved November 28, signed December 14.

Funds approved - USD 6.1 mln. Total investment - USD 5.8 mln.

**K2/R4 Completion Project**

Loan to Energoatom for the completion and safety upgrade of two nuclear power plants, approved subject to conditions including the permanent closure of Chornobyl facility.

Approved December 7.

Funds approved - USD 231.0 mln. Total investment - USD 1, 591.0 mln.

**2) World Bank Projects:****Projects Under Implementation:****Public Sector****Treasury Systems Project****Amount**

\$16,4 m.

**Board Date**

February 24, 1998

**Effective Date**

July 27, 1999

**Closing Date**

June 30, 2002

Project objectives: Creation of centralized treasury system; developments of amendments necessary to the Budget Law to permit the imposition of expenditure control regulations; development of a new hierarchical chart of accounts; implementation of a transaction based Treasury Ledger System; implementation of effective Public Expenditure Control Regulations to manage the level and timing of expenditures and the extent of arrears.

**Private Sector**

**Enterprise development Adjustment Loan**

**Amount**

\$310 m

**Board Date**

June 27, 1996

**Effective Date**

July 19, 1996

**Closing Date**

December 31, 2000

Project objectives: Accelerated implementation of the mass-privatization program and strengthening of capital markets regulation. Funding for critical imports and a smaller amount (\$10 million) for technical assistance in post-privatization enterprise restructuring initiatives including consultative services, training and equipment for key agencies.

**Sea Launch Project**

**Amount**

\$670m

World Bank Guarantee \$100 m

**Board Date**

May 29, 1997

**Effective Date**

May 11, 1998

**Closing Date**

December 31, 2006

Launching of commercial satellites over a 10 to 15 years period by a joint venture including Ukrainian (Yuzhnoye), RSC Russian (Energia), Norwegian (Kvaerner Maritime) and US (Boeing Commercial Space Company) firms. The Bank guarantee would cover political risks related to production and export of launching vehicles for a \$100 million commercial bank consortium loan to the Ukrainian partner.

**Financial Sector**

**Export Development Project**

**Amount**



\$70 m

**Board Date**

November 2, 1996

**Effective Date**

August 7, 1997

**Closing Date**

June 30, 2002

Project aims to assist in the development of Ukraine's emerging private sector export potential by supporting the production and marketing of goods, works and services for export in all sectors of the economy. The project would provide: (i) export development technical assistance to private exporters (through export development fund), (ii) technical assistance for the institutional development of Ukreximbank (through a twinning program with experienced foreign Exim bank), and (iii) credit finance to private exporters (credit line for Ukreximbank for further financing to eligible sub-borrowers).

**Financial Sector Adjustment Loan (FSAL)**

**Amount**

\$300 m

**Board Date**

September 15, 1998

**Effective Date**

September 18, 1998

**Closing Date**

December 31, 2000

Project aims at: (i) autonomy and independence of the National Bank of Ukraine in the provision of monetary stability and the health and soundness of the banking system; (ii) improved monitoring and regulation of commercial banks; and (iii) creating a favorable environment for the future development and structure of the banking sector in Ukraine.

**Energy Sector**

**Hydropower Rehabilitation and System Control Project**

**Amount**

\$190 m

World Bank Loan \$114 m. Cofinancing from the Swiss, Canadian and Norwegian governments.

**Board Date**

April 11, 1995

**Effective Date**

May 24, 1996

**Closing Date**

December 31, 2000

Supply of turbines, generators, improvement of dispatch and system control network at hydro power plants along the Dnieper river (Kyiv, Kaniv, Kremenchuk, Dnipropetrovsk, Zaporizhia, Kakhovka), National Dispatch Center and eight regional dispatch centers.

**Coal Sector Adjustment Loan**

**Amount**

\$300 m

**Board Date**

December 11, 1996

**Effective Date**

December 27, 1996

**Closing Date**

December 31, 2000

Implementation of economic restructuring of the coal sector including corporatization, price, trade and export liberalization, decommissioning of unprofitable mines and investment into profitable corporatized mines, social mitigation. Facilitating implementation of the sectoral reform program based on Action Plan agreed on between Ukraine and the Bank in January 1996, and Presidential Decree issued in February 1996.

**Coal Pilot Project****Amount**

\$15.8 m

**Board Date**

May 16, 1996

**Effective Date**

August 28, 1996

**Closing Date**

December 31, 2000

Mitigating of social and environmental consequences of closure of three coal mines with focus on employment creation for redundant mines; transfer of social assets and environmental clean-up.

**Kiev District Heating Improvement Project****Amount**

\$200 m

**Board Date**

May 21, 1998

**Effective Date**

April 12, 1999

**Closing Date**

December 31, 2004

The project targets: (i) heat production capacity improvement, to alleviate the insufficient heat production capacity and better meet existing/ growing demand; (ii) DH rehab (transmission, distribution, and network improvements); (iii) automation and control; and (iv) institutional support to project agencies.

**Kiev Public Building Energy Efficiency Project****Amount**

\$18.3 m

**Board Date**

January 27, 2000

**Effective Date**

August 17, 2000

**Closing Date**

December 31, 2004

The project aims at improvement of energy efficiency in 1302 Kiev's public buildings and consists of the following main components: (i) Energy Efficiency Improvements in Buildings; (ii) Technical Audit and Design of the Retrofits; and (iii) Institutional Support: PIU, project management, public awareness campaign, training and equipment, social assistance support.

**Environment**

**Ozone Depleting Substances Phaseout**

**Amount**

\$23.2 m GEF Grant

**Board Date**

June 23, 1998

**Effective Date**

march 31, 1999

**Closing Date**

December 31, 2002

The project targets priority consumption phaseout activities in the refrigeration, aerosol, solvent, and halon sectors. It also provides modest technical assistance at both the institutional and enterprise levels to facilitate implementation of the ODS Phaseout Country Program, and technology framework project.

**Projects under Preparation**

**Public Sector**

**Programmatic Adjustment Lending**

**Amount**

Up to \$750m, in three separate operations

**Board Date**

June 2001 - first operation

The project will support the implementation of the government's medium term program focusing particularly on components relating to improving governance and building up institutions. Focusing on (i) financial discipline, (ii) improving the regulatory framework, (iii) transparent definition and protection of property rights, (iv) public sector accountability, and (v) social sustainability.

**Tax Administration Modernization Project**

**Amount**

\$100m

**Board Date**

November 2001  
(tentative)

The project will improve the institutional capacity of the State Tax Administration in order to achieve a service-based tax administration that fosters voluntary compliance; reduces tax evasion and broaden tax base; supports current government efforts to reduce tax rates and paves the way for further gradual reductions in the future; efficiently, equitably and honestly administers the laws related to taxes.

**Statistics Modernization Project**

**Amount**

\$30m

**Board Date**

2003

The project will strengthen the capacity of the statistical system to provide quality and timely data for economic and social policy, business decisions, and general analytical work.

**Social Sector**

**Social Investment Fund**

**Amount**

\$30 m

**Board Date**

December 2001

The project aims at improving the living conditions of poorer and vulnerable groups of the population; empowering communities and vulnerable groups to address social needs: assisting reforms in social protection, health and education by creating models that target and provide services.

**Municipal Development Loan APL**

**Amount**

\$ 150 m

**Board Date**

2001

The project aims at developing capacities at the local government levels (municipalities) to better manage and deliver of urgent infrastructure rehabilitation activities in a cost-effective manner, taking into account priorities as defined by the municipalities themselves in their municipal development plans; improving municipal authorities capacities to better financial management.

**TB/AIDS Epidemic Control Project**

**Amount**

\$ 52 m

**Board Date**

2001

The project objective is to implement measures for TB/HIV/AIDS epidemic control in Ukraine. TB component will be devoted to the introduction of DOTS strategy in Ukraine, HIV/AIDS component includes subcomponents aimed at: advocacy and awareness raising; work with the risk groups on HIV/AIDS prevention; implementation of activities to

prevent HIV/AIDS transmissions; improvement of care and support of people living with HIV/AIDS.

### **Private Sector**

#### **Private Sector Development Loan**

**Amount**

\$82m

**Board Date**

September 2001 (tentative)

The Private Sector Development (PSD) Loan seeks to improve the business climate and strengthen the private sector in Ukraine, in collaboration with the government. It will accelerate the rate of growth of the industrial sector by restructuring of the privatized and new private enterprises and by upgrading management and technical skills.

### **Energy Sector**

#### **Coal Sector Social Mitigation Project**

**Amount**

\$100m

**Board Date**

March 2001

The project will (i) compensate redundant miners and ease social tensions through the provision of statutory social benefits; (ii) establish efficient procedures for closing redundant and uneconomic mines and avoiding serious environmental impact; (iii) enable miners from mines that are to be closed to enter the regional labor market and find new permanent or temporary employment in non-mining sectors; and (iv) provide public information, auditing, training and technical assistance.

#### **Sevastopol Heat Supply Improvement Project**

**Amount**

\$28 m

**Board Date**

March 2001

The project aims (i) to increase efficiency, improve the reliability and service levels in the heating system in Sevastopol through introduction of decentralized mini-boilers in the areas of worst heating conditions and in key public buildings; and (ii) to promote sound cost recovery policies and practices and the commercialization and institutional development of newly established heat supply company Sevteploserviss.

### **Rural Development**

#### **Title Registration Project**

**Amount**

\$100m

**Board Date**

2002

The Project supports the introduction of registration of real estate and immovable property in rural areas and towns by providing technical assistance, training, and investment in equipment and facilities. It assists in developing a strategy for land registration, provide institutional strengthening at the national and regional levels, re-equip the national mapping agency, and help to set up and maintain land and property registers.

#### **Rural Finance/Farm Restructuring**

**Amount**

\$100m

**Board Date**

2003

The project aims to increase lending to private agriculture, small rural enterprises and agri-businesses by expanding the financial services of commercial banks and credit unions in rural areas.

#### **Infrastructure**

##### **Lviv Municipal Water & Wastewater Project**

**Amount**

\$20 m

**Board Date**

March 2001

The project aims to improve water services to the population and protect the water body against contamination.

#### **Environment**

##### **Biodiversity Conservation in the Azov-Black Sea Ecological Corridor**

**Amount**

\$6.9m GEF grant

**Board Date**

March 2001

The project aims to conserve biodiversity and assist with sustainable development on the Ukrainian coast and upland sites of the Black Sea and the Sea of Azov. Specific project objectives are to: (i) establish a network of regional and national protected marine, wetland, and upland areas within the Ukraine Black Sea coastal zone; (ii) promote sustainable agriculture compatible with biodiversity conservation in agricultural landscapes; (iii) build capacity and awareness in biodiversity conservation and sustainable development; (iv) improve water quality and monitoring of water quality and biodiversity in the wetland and marine communities of the project region, and (v) support international cooperation activities under the Ramsar, Bonn, and Bern Conventions.

##### **National Strategy Study for Climate Change**

**Amount**

\$254,000

**Board Date**

December 2000

The National Joint Implementation (JI) Strategy Study will provide Ukrainian authorities with tools and develop options for their use to analyze the opportunities presented by potential international markets for GHG emission reductions through the mechanism of JI. The Study will pursue this objective from Ukraine's perspective and analyze the general elements that impact any future market for GHG emission reductions; second, it will help Ukraine to identify priorities within climate change theme.

### **3) Approved TDA Projects in Ukraine, as of June 2001:**

**Aluminum Smelter** - TDA has approved partial funding (\$240,900) for a study on conversion of the ZALK smelter to pre-bake technology. Kaiser Aluminum and Chemical Corp. has been selected to conduct the study.

**Pollution Control**—TDA has approved funding (\$200,000) for studies on environmental investments by industrial enterprises, to be financed by the World Bank. Booz-Allen & Hamilton conducted the studies.

**Oil Pipeline**—TDA has provided partial funding (\$750,000) for a study on construction of an oil pipeline from Odessa to Brody. Although the study (carried out by Gulf Interstate Engineering) was completed in late 1999, the results have still not been released by the government. The reasons may include the continued reshuffling of key officials within the energy sector and reluctance within the government to diversify fuel supplies.

**Vinyl Windows**—TDA is providing partial funding (\$250,000) for a study on production in Ukraine and Russia of vinyl windows from U.S. components. ACRO Extrusion Corporation is conducting the study.

**Defense Conversion**—TDA is providing funding (\$150,000) for an Orientation Visit for representatives of Kharkiv-based defense enterprises. Power Tech Associates is organizing the OV.

**Coal Recovery**—TDA provided partial funding (\$375,000) for a study on recovery of coal from slurry ponds. A consortium headed by Oxbow Coal and Carbon is conducting the study.

**Air Traffic Control**—TDA is providing funding (\$500,000) for a study on upgrading the ATC system in Ukraine. ARINC is conducting the study.

**Meat Processing**—TDA provided partial funding (\$150,000) for a study on four meat processing projects. Koch Supplies Inc. is conducting the study.

**Kyiv Airport**—TDA provided partial funding (\$500,000) for a study on upgrading Boryspil airport. The Canadian Government provided an additional \$300,000. Hughes Aircraft conducted the study.

**Power Plant Repowering**—TDA provided partial funding (\$400,000) for a study on conversion of a coal-fired power plant in Dnepropetrovsk to gas. NRG and Black & Veatch conducted the study.

**Aluminum Smelter**—TDA provided partial funding (\$500,000) for a study on upgrading of environmental controls and automation at the Zaporozhye smelter. Technalum conducted the study.

**Spent Fuel**—TDA provided partial funding (\$300,000) for a study on construction of a spent fuel facility at Zaporozhye Nuclear Power Plant. Duke Engineering & Services conducted the study.

**Power Plant Systems**—TDA provided partial funding (\$200,000) for a study on coproduction of instrumentation systems for nuclear power plants. Westinghouse Electric conducted the study.

**Electronic Money**—TDA provided partial funding (\$450,000) for a study on development of a new banking network utilizing smart cards. Vastarr conducted the study.

**Antonov Aircraft**—TDA provided partial funding (\$1,000,000) for a study on coproduction of the An-38, a small passenger/cargo aircraft. AlliedSignal conducted the study.

**Cement Plants**—TDA provided partial funding totaling \$400,000 for separate studies on the rehabilitation of two cement plants. Fuller International conducted the studies.

**District Heating**—TDA provided funding (\$626,000) for a study on upgrading the Kyiv district heating system. Joseph Technology conducted the study.

**Energy Conservation**—TDA provided partial funding (\$400,000) for a study on energy conservation investments at three facilities. Honeywell Inc. conducted the study.

**Railways**—TDA provided funding (\$250,000) for studies on restructuring of and development of a telecom plan for Ukrainian Railways. Clell Harral International conducted the telecom study; JH Winner Inc. conducted the restructuring study.

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#### **Privatization and Capital Markets:**

USAID provides technical assistance for privatization of unfinished construction sites and social assets to broaden the base for private sector development. The activity includes: 1) advisory work for the Government of Ukraine and the legislators on the legal and regulatory framework of privatization; and 2) policy and organizational support of local privatization authorities and businesses in conducting auctions. This activity also helps enterprises restructure and divest idle assets.

Capital markets development assistance includes regulatory drafting, technical assistance, training and equipment to: 1) support the Securities Commission; 2) foster a better legal and enforcement environment for corporate governance and shareholder rights that focuses on investor protection; 3) improve issuers' financial disclosure procedures; 4) enhance the computerized nationwide share trading system and the private central securities depository; 5) develop securities industry institutions such as independent registrars, custodians, and broker-dealer firms; and 6) establish self-regulation within the securities industry and improve professional standards. As part of the capital markets program, USAID also supports accounting reform by 1) improving the regulatory framework; 2) assisting in the conversion of enterprises to a new International Accounting Standards based accounting system; 3) supporting the

development of professional self-regulation; and 4) promoting university curriculum reform and partnership development.

#### **Business Development:**

USAID supports new and privatized businesses, particularly small and medium-sized enterprises (SMEs), through activities that seek to improve SME access to market-driven business skills and information; create a legal, regulatory, and political environment more conducive to SME development; and enhance SME access to finance. A network of fifteen business centers and three incubators provide training, consulting, and information services to a variety of businesses. Credit and investment is provided to businesses through the Western NIS Enterprise Fund, while micro and small loans are provided to businesses through the EBRD and business incubators. USAID has also been working with Ukrainian NGOs, the government, and other organizations to develop the legal framework that would allow NGOs to provide microfinance to local businesses. An enterprise restructuring activity builds on corporate governance practices to bring about improvements in privatized enterprises. USAID also supports the privatization of urban enterprise land so that enterprises may own their own land, which can be used as collateral as well as make the enterprise more attractive to potential investors. To date, the activity has led to over 2,400 land privatizations, generated UAH 77 million in revenues for local government budgets, and created a network of twenty-eight land sales field offices.

#### **Economic Restructuring:**

The focus of USAID's economic restructuring program is to help Ukraine create the institutions of a market economy, particularly in the banking system, commercial law, fiscal and macroeconomic areas. The program concentrates on: 1) improving overall tax structure and administration; 2) developing tools for budget estimation, analysis and monitoring; 3) developing professional skills and organizational capability at the National Bank and advancing professional skills of the commercial banks; 4) providing macroeconomic policy research and analytical support for key policy makers; 5) strengthening the commercial law framework; and 6) reforming the regulatory regime of the government as it affects private business.

#### **Agriculture:**

Reactivating and transforming Ukrainian agriculture and the entire food production system is central to economic recovery and reform. USAID is assisting Ukraine in restructuring this priority sector through an agricultural strategy that focuses countrywide on: 1) financing and developing private sector sources of inputs to agriculture, and private processing of agricultural products; 2) privatizing agricultural land with special emphasis on restructuring collective agricultural enterprises into private entities and the issuance of land titles and developing a land market; 3) reducing the environmental impact of agricultural chemicals; 4) private farm and household plot development; and 5) implementing new agriculture policies to facilitate a private-sector based market economy.

#### **Energy:**

USAID has helped develop a multi-faceted energy program for Ukraine which focuses on: 1) power sector restructuring, which has helped transform the power sector from a vertically integrated monopoly to a market system with regulatory oversight of tariffs and licensing, and power distribution based on financial bids; 2) assisting the government of

Ukraine to privatize the power sector, starting with 27 distribution companies; 3) development of a coal bed methane industry; 4) improving energy production and conservation by introducing new technologies, management techniques and applying market principles; and 5) indirectly supporting Ukraine's nuclear safety performance and improving nuclear sector regulation and inspection.

**Environment:**

USAID's environmental program aims to promote sound environmental management for sustainable development through activities that: 1) strengthen the policy, legal and regulatory framework; 2) involve citizens and NGOs in environmental decision-making; 3) increase environmental investment; 4) improve environmental management at public and private facilities; and 5) promote the use of environmentally sound technologies. Over the next three years, USAID will assist Ukrainian communities in developing Local Environmental Action Programs (LEAP). LEAPs help build partnerships between citizens, authorities and industry to reduce local environmental threats to human health and the ecology. USAID will support LEAP pilot projects in six Ukrainian communities and will develop training materials, guidelines and centers of excellence. USAID is cooperating with Ukraine to reduce harmful greenhouse gas emissions and meet global commitments under the United Nations Framework Convention on Climate Change (UNFCCC). The USAID Climate Change Initiative (CCI) is assisting Ukraine to: 1) establish national administrative structures; 2) develop technical methodologies to implement a national climate change program; 3) prepare projects for investment; and 4) build consensus among industry, environmental organizations and government authorities.

**Democratic Reforms:**

Ukraine is seeking to become a nation ruled by law, where human rights are respected and freedom of speech and press ensured, in which government policy and activity reflect the needs and wishes of an informed citizenry, and to whom representatives are responsive and officials are accountable. USAID programs promote democratic reform by helping to: 1) develop competitive and fair political processes, including elections; 2) support the emergence of laws and legal institutions that support and embody democratic processes; 3) strengthen local government to make it effective, responsive and accountable to citizens; 4) empower citizens to participate actively in the political and economic life of their communities through non-governmental organizations, through democratically-structured political parties, and independent trade unions; and 5) strengthen independent media.

**Social Protection:**

USAID's support for social sector restructuring in Ukraine is designed to protect the most vulnerable members of the population during the economic transition, reduce government budget expenditures on the social sector, and facilitate price increases necessary to increase the quality of social services. Our activities address the urgent humanitarian and health needs of the people of Ukraine by: 1) supporting the government in moving from universal housing and communal services subsidies to targeted social services; 2) providing humanitarian assistance and strengthening the ability of non-governmental organizations to deliver social services; 3) laying the foundation for a sustainable system of pensions and social insurance; 4) providing training and supplies to improve the quality of and access to reproductive health care and the screening for and treatment of breast cancer; 5) supporting health partnerships

for the promotion of primary health care and exchange of information, training and personnel; 6) providing thyroid cancer screening and psycho-social interventions to child victims of the Chernobyl accident, while strengthening the Ukrainian government's ability to respond to health and environmental crises; and 7) providing technical assistance in addressing both the TB and the STI/HIV/AIDS epidemics.

## **A. Business Customs**

Given the fact that "business" in a Western sense is something new to the current generation of Ukrainians, it is difficult to generalize about proper protocol and customs for doing business in Ukraine. The legacy of centralized authority extending back for centuries, bureaucracy, red tape, and an unwillingness to take initiative have been imprinted on the developing Ukrainian business psyche. Signatures, proper letterhead, stamps of authenticity, and forms (in triplicate) are very important to "getting the job done" in Ukraine - a process which can exercise the most experienced international businessperson. For example, a letter authorizing Mr. X to do Y will sometimes be rejected because it does not have "the proper stamp." Foreign companies will often stamp a document in English with an "official" seal, show the stamp to a customs officer or other bureaucrat (who likely cannot read English anyway), finding that this strategy is often successful.

Due to the general lack of knowledge about international business practices and terminology exhibited by most Ukrainians, it is important to take an educating role in business negotiations. Ukrainians can be shrewd and tough negotiators. It is important to be very responsive to one's negotiating partner, even regarding seemingly mindless issues. Visits to factories or other places of business activity in the U.S. can literally be the "picture worth a thousand words," as relatively few Ukrainians have been to the U.S.

The form of business in Ukraine often takes precedence over the substance, making a U.S. partner's approach all the more important. As noted above, given the absence of a strong, transparent legal infrastructure, your deal may in the end depend on the trust you have painstakingly built over many months or years.

As Ukrainians are deeply personal, an extraordinary emphasis is placed on cementing personal relationships before doing business. Face-to-face meetings are the norm, with little business conducted over the phone. Business cards, printed in English and Ukrainian or Russian, are de rigueur, with a firm handshake to open and close a meeting. Long evenings of vodka toasts (moderation is advised) and several-course meals are important in building trust with your Ukrainian partner; wishing good health, happiness, and success on your partner's immediate family will be certain to bring a smile and a hearty "thank you." Remembering your Ukrainian partner's birthday, child's birthday, and keeping Ukrainian holidays (see subsection C, below) in mind will be gestures not soon forgotten.

## **B. Travel Advisory and Visas**

All non-CIS citizens need a passport and Ukrainian visa to enter Ukraine. Visas can be obtained in advance from the Embassy of Ukraine, 3350 M Street, NW, Washington DC 20007; Tel: (202) 533-7507; Fax: (202) 333-0817; or at the Ukrainian Consulates General in Chicago (2247 W. Chicago Ave., Chicago, IL 60622; Tel: (312) 384-6632;

Fax: (312) 384-6750) and New York (240 East 49th St., New York, NY 10017; Tel: (212) 371-5690; Fax: (212) 384- 6750). <http://www.ukremb.com>

Since May 2000 a letter of invitation from a person, company or organization in Ukraine (or a travel company voucher) has no longer been required for obtaining a visa. U.S. citizens cannot obtain visas at airports or border crossings. CS Kyiv strongly recommends that business travelers secure all documents prior to entering Ukraine. To extend a visa, you must contact the Head Office of the "Visas, Permits, and Passports Department" (VVIR) of the Ministry of Foreign Affairs in Kyiv, Tel: (380-44) 235-4316. Ukrainian visa can be extended not more than three times per stay.

On June 15, 2001, President Kuchma signed a decree abolishing the requirement for foreigners to register with local police and registration officials within 72 hours of arrival. However, it remains unclear how local visa and registration (OVIR) offices will respond, as the bureaucracy seemingly was not drawn into the process and procedures have not been formulated. Until further notice, it may be wise to look to the old system, that stated that all foreigners visiting Ukraine, except those staying less than three working days and minors (under 18), are required to register their passports with local law enforcement authorities. This law is not uniformly enforced, but visitors who do not register may experience delays when leaving Ukraine, or difficulty when trying to extend visas. The Ukrainian Ministry of Tourism is trying to extend the minimum required term for mandatory registration from three to thirty days. The registration requirement is automatically met when foreigners stay in hotels, when resident business persons register their businesses, or when students register under established exchange programs. Private visitors must have their hosts, relatives, or landlords register their U.S. passport at the local "Visas, Permits, and Passports Department" (VVIR) of the Ministry of Foreign Affairs. A fee is usually charged for visa extensions or passport registration.

Please note that business travelers who intend to visit Russia from Ukraine must have a valid Russian visa. Obtaining Russian visa in Ukraine is very expensive, and costs USD 400 for three day processing, and USD 320 for one week processing. The Consular Section of the Embassy of the Russian Federation in Ukraine is located at: 8 Prospect Kutuzova, Kyiv 252196, Ukraine; Tel: (380-44) 294-6701; Fax: (380-44) 294-6516, 294-7936; hours: 9-5 p.m., M-W-F. The address of the Ukrainian Embassy in Moscow is: 18 Stanislavskaya St.; Tel: (095) 229-3422, 229-3442; Fax: (095) 229-3542.

**Insurance:**

In August 1998, the Ukrainian government issued a decree requiring that all foreign visitors obtain "emergency medical insurance" from the Ukrainian State Insurance Company. This insurance is not valid at private clinics, but reportedly allows foreigners to be treated in any state hospital without advance payment. Non-emergency service requires 24-hour notice in the form of a phone call to the State Insurance Company. "Emergency Medical Insurance" is currently available only at major international airports within Ukraine and at certain land border crossings. Fees for insurance range from fifteen to several hundred dollars, depending on the length of stay. Fees are normally accepted in cash and are generally accepted only in U.S. dollars. Enforcement of this insurance requirement is not consistent. This has caused problems for American citizens who were not required to purchase insurance upon entering Ukraine, and subsequently had difficulty registering with the Office of Visas and Registration because they lacked proof of insurance. Many Americans have reported that they are being

overcharged for this insurance. Therefore, Americans are advised to carefully review the fee schedule at the insurance booth and pay only the legally established fee.

U.S. medical insurance is not always valid outside of the United States. Those travelers carrying valid overseas insurance coverage are not exempt from the “emergency medical insurance” requirement by the Ukrainian government.

#### **Crime Information:**

Crime in Ukraine is a continuing problem. Westerners and their vehicles and residences are increasingly viewed as choice targets. Pickpocketing, robbery, and other petty crimes are a common occurrence on the mass transit system. There have been a number of documented reports of criminal acts occurring on trains, including gassings and robberies. Therefore, special care should be taken on subways, buses and trams. Economically motivated crimes in Ukraine are on the rise, with foreigners frequently targeted by various criminal elements. The Embassy is aware of a common criminal approach: targets are spotted leaving Western restaurants and bars, then attacked once inside the doorway of their building, which is usually dark. Care should be taken to protect difficult-to-replace documents. Visitors should conduct themselves as they would in any major U.S. city - always be aware of your surroundings, travel in pairs or groups, avoid poorly-lit or isolated areas of the city, and refrain from hailing rides from cars with two or more people already inside.

Consult the current Consular Information Sheet for Ukraine, prepared by the U.S. Department of State, for updates on the crime situation.

#### **C. Holidays**

Official 2002 Ukrainian holidays are as follows (subject to confirmation in late 2001):

January 1	New Year's Day
January 7	Orthodox Christmas
March 8	International Women's Day
March 31/April 1	Orthodox Easter
May 1-2	Labor Day
May 9	Victory Day
May 19/20	Holy Trinity Days
June 28	Constitution Day
August 24	Independence Day

According to the Ukrainian Labor Code, if a holiday falls on Saturday or Sunday, the day-off is transferred to the following Monday.

Ukrainian time is GMT+2 (Greenwich Mean Time) and EST+7 (Eastern Standard Time). The country observes daylight savings times from the last Sunday in March through the last Sunday in October.

#### **D. Business Infrastructure**

##### **Accommodations:**

There is a range of hotels in Kyiv, varying in price. Please check and confirm rates at your hotel prior to arrival. If preferred, various agencies in Ukraine can suggest apartment rentals on a daily, weekly, or monthly basis for business travelers. Please be advised that during the winter months heating may not be available in many hotels outside Kyiv. Hot water is generally available in Kyiv hotels and other major cities, but there are periods (two-six weeks during the summer) when the hot water pipes are turned off for cleaning and repairs. In smaller towns hot water is supplied only on by-hour basis, or not supplied at all.

The standard electrical voltage throughout Ukraine is 220 volts, with continental (two-pronged) outlets. If traveling with U.S. electrical appliances, a plug adapter is necessary and, most likely, a converter as well (unless the appliance states otherwise). Travelers might also want to consider bringing a surge protector, especially for portable computers and other electronic devices.

**Clothing:**

Business attire in Ukraine is generally formal; for business, dress should be conservative. A suit or dress trouser with blazer and tie is suitable for men, while appropriate dress for women can extend from a suit to dress slacks and blazer. Outside the capital, dress is slightly more casual. In the cooler months, dressing for warmth dictates, especially in regions of Ukraine prone to heating shortages.

**Communications:**

Ukraine's local telecommunications system has made marked improvements over the last few years, particularly in international, cellular, and mobile communications. International calls can be made from Utel cardphones at a variety of points in Kyiv, including Boryspil Airport. To make long-distance calls from Ukraine, first dial 8, then wait for a new dial tone. International calls require dialing 10, followed by the country code, city code, and number. Ukraine's country code is 380; Kyiv's city code is 44.

**Etiquette:**

- do not shake hands across the threshold of a door (it is considered bad luck);
- when shaking hands, take off your gloves;
- be sure to have your business cards printed in Ukrainian on one side and English on the other side;
- be prepared to accept all food and drink offered. Ukrainians are known for their generosity when it comes to food; turning down food may be considered rude;
- if you bring flowers, make certain that it is an uneven number of flowers;
- offer to share your cigarettes and snacks with those around you;
- do not put your thumb between your first two fingers - this is a very rude gesture.

**Language:**

Ukrainian is the official state language of Ukraine. However, Russian is widely used in Kyiv and, especially, the cities of eastern Ukraine (to a much lesser extent in western Ukraine). The number of English speakers is growing yearly. Some useful Ukrainian vocabulary to remember is DOBRIY DEHN (hello, good day); DYA-KOO-YOU (thank you); BOOD LASKA (please/you're welcome).

**Medical:**

Bring prescriptions with you and avoid drinking tap water (bottled water is readily available in major hotels and supermarkets). Long-term visitors may wish to consider

bringing a distiller - not a filter - for a constant supply of potable water. Short-term business travelers are unlikely to be affected by increasing reports of diphtheria and cholera; however, it is wise to make sure that all foods and utensils are thoroughly cleaned. Prior to travel, make sure proper immunizations are up-to-date. The U.S. Embassy Medical Unit can provide business travelers with further health information for Ukraine.

**Money:**

Ukraine is still primarily a cash economy. Travelers' checks and credit cards are gaining wider acceptance in larger cities. Credit cards are accepted at major hotels and Western-style restaurants. However, there is high credit card fraud in Ukraine, so travelers are encouraged not to use credit cards. Bring adequate cash to cover hotel and incidental expenses. We recommend bringing bills in good condition and without tears or writing on them. Rumped, torn, and written-on bills are usually not accepted. Official exchange points (called "Obmin Valyut") operate in most hotels and supermarkets. It is illegal to exchange money outside of exchange points, and we strongly discourage doing so.

**Currency Regulations:**

Customs regulations prohibit sending cash, travelers' checks, personal checks, credit cards, or passports through the international mail system to Ukraine. These items are regularly confiscated as contraband by customs authorities. Travelers must declare all cash and jewelry, regardless of value, upon entering Ukraine. Any undeclared items are subject to confiscation. Additionally, travelers should retain their customs forms, as they will be required to present these forms upon departure from Ukraine. Under customs regulations, travelers may bring up to \$10,000 in cash into Ukraine without special permission; more than \$10,000 requires a written statement by the traveler.

**Radiation:**

Radiation levels in Kyiv and most of Ukraine are considered safe and normal by the U.S. Embassy and other official bodies. Levels are measured daily.

**Traffic Safety and Road Conditions:**

Roads in Ukraine are in generally poor condition. Travel between cities at night and in winter can be particularly treacherous. Major roads are drivable during daylight hours. Roadside services, such as gas stations and repair facilities, exist but are inadequate. Travelers should plan accordingly. Additionally, carjackings of Western-made or foreign-registered vehicles are on the rise.

Ukraine is a zero tolerance country - don't drink and drive!

**Transportation:**

City transport in Kyiv is cheap, but crowded and slow at times. The Metro (subway/local train) is probably the quickest public transport method. Metro tokens can be purchased at individual stations; monthly passes at transportation kiosks. However, hailing a cab is probably the most efficient form of transportation within the city. Private cars can also be hired for a reasonable price, but most drivers do not speak English. Be sure to agree on a price beforehand. It is becoming customary to order a taxi by phone. The most reliable and comfortable taxis can be ordered by dialing: 0-58, 234-4444, 574-0574 , 238-8238.



Rent-a-car service. International trademarks Avis (Tel: 294-2104), Hertz (Tel: 296-7616), and Europcar (Tel: 274-9977) run their operations in Kyiv and Boryspil Airport.

Train travel is the least expensive and most convenient method to reach just about any location in Ukraine. Trains are slow, but generally safe.

Air travel within Ukraine is often unreliable, with unpredictable schedules and service not on par with Western standards. Ukrainian domestic carriers operate Antonov-24 or Yakovlev-40 type aircraft, most of which have been in use for over 20 years. Due to very old air navigation equipment being operated by Ukrainian air traffic service, domestic flights are subject to prolonged delays, especially during bad weather. Direct air service between Ukrainian cities, other than from Kyiv, is unavailable.

The reconstruction of Boryspil Airport has made for a more traveler-friendly environment. However, plan for frustrating delays at passport and customs control points. The number of international airlines operating flights in and out of Kyiv is increasing. Austrian Airlines now has regular direct service between Vienna and Kyiv, Odessa, Dnipropetrovsk and Kharkiv. Of the U.S. carriers, United Airlines operates code-share flights with Austrian Air and Lufthansa; Delta Airlines with Air France; Northwest with KLM, and American Airlines with Swissair. Other major international airlines with regular service in Ukraine are: British Airways, Finnair, Sabena, Malev, LOT, CSA, Turkish Airlines, Aeroflot, and Transaero.

U.S. business travelers are encouraged to obtain a copy of the "Key Officers of Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; Tel: (202) 512-1800; Fax: (202) 512-2250.

Business travelers to Ukraine seeking appointments with the U.S. Embassy Kyiv officials should contact the Commercial Section in advance. The Commercial Section can be reached by telephone at (380-44) 490-4336, fax at (380-44) 417-1419, or email at [kiev.office.box@mail.doc.gov](mailto:kiev.office.box@mail.doc.gov)

## **A. Country Data**

**Population:** 49.29 million

**Population Growth Rate:** (-0.8)%

**Religions:** Orthodox, Ukrainian Catholic (Greek Rite), Roman Catholic, Jewish, Muslim, and others.

**Government System:** The Head of State is the President, vested with supreme and executive power. In 1994, Leonid D. Kuchma was elected President of Ukraine and in 1999 re-elected for a second five-year term of office. The government is led by the Prime Minister. The superior body of legislation is the Verkhovna Rada (Parliament). In Ukraine, there are 24 administrative regions (oblasts), the Autonomous Republic of Crimea, and two municipalities (Kyiv and Sevastopol).

**Languages:** Ukrainian (official), Russian (widely spoken and also officially recognized).

**Work Week:** 40 hours per week (normal business hours: 9 a.m. – 6 p.m.)

## B. Domestic Economy

	1999	2000 (estimated)	2001
(forecast)			
GDP (\$ billion)*	30.78	32.34	38.46
GDP Growth Rate (%)**	-0.4	5.8	6.2
GDP Per Capita (\$)	619.0	656.0	783
Government Spending (% of GDP)	19.8	18.7	16.8
Inflation (annual %)***	19.2	25.8	12.3
Unemployment (%)	4.3	4.22	4.2
Foreign Exchange Reserves (\$ billion)	1.09	1.48	1.98
Average Exchange Rate (UAH : \$)	5.22	5.44	5.48
Foreign Debt (\$ billion)	12.4	10.33	10.85
US Economic Assistance (\$ million)	195.0	195.0	175.0

Notes:

\* at the official UAH : \$ exchange rate

\*\* GDP change denominated in hryvnia adjusted to CPI

\*\*\* Consumer Price Index, CPI

## C. Trade (\$ millions)

	1999	2000	2001
Total Country Exports	16,234	18,059	N/A
Total Country Imports	15,237	15,317	N/A
U.S. Exports to Ukraine	204	186	N/A
U.S. Imports from Ukraine	519	N/A	N/A

## D. Investment Statistics

According to the Ukrainian State Statistics Committee, as of January 1, 2001 the total volume of direct foreign investment into Ukraine since 1992 had reached approximately \$3.86 billion, the majority of which was invested in joint ventures. The following are the official Ukrainian government statistics for total cumulative direct investment by country of origin from 1992 through January 1, 2001:

	(\$ millions)
United States	635.8
Cyprus	372.6
Netherlands	361.8
Russia	314.3
Great Britain	299.4
Germany	237.9

The following is an industry breakdown of cumulative U.S. investments into Ukraine by the major sectors as of January 1, 2001:

	(\$ millions)
Domestic trade	179.0

Food processing	108.0
Agriculture	31.9
Metal processing and machine building	31.1
Finance, credit and insurance	42.6
Non-ferrous metallurgy	14.8
Communications	17.3
Transportation	15.9
Construction	33.2
Fuel Industry	16.5
Chemicals	21.7
Building materials	15.2
Other sectors	51.0
Total	578.2

#### A. THE U.S. EMBASSY IN UKRAINE

1. The Ambassador  
Carlos Pascual, U.S. Ambassador to Ukraine  
Marie Louse Yovanovich, Deputy Chief of Mission  
10, Yuriya Kotsyubinskoho Vul., Kyiv 01901, Ukraine  
Tel: (380-44) 490-4000; Fax: (380-44) 244-7350  
  
Consular Section Fax: (380-44) 246-8559/9283  
<http://www.usemb.kiev.ua>
2. Foreign Commercial Service (FCS)  
Keith Bovetti, Senior Commercial Officer (till July 2001)  
Frank Carrico, Senior Commercial Officer (after February 2002)  
7, Kudriavsky Uzviz, 2nd Floor, Kyiv 04053, Ukraine  
Tel: (380-44) 490-4336, 417-1413; Fax: (380-44) 417-1419  
E-mail: [kiev.office.box@mail.doc.gov](mailto:kiev.office.box@mail.doc.gov)
3. Economic Section  
Kenneth Fairfax, Economic Counselor  
10, Yuriya Kotsyubinskoho Vul., Kyiv 04053, Ukraine  
Tel: (380-44) 490-4000; Fax: (380-44) 244-7350
4. U.S. Agency for International Development (USAID)  
Christopher Crowley, Director  
19, Nizhnij Val., Kyiv 04071, Ukraine  
Tel: (380-44) 462-4578  
Fax: (380-44) 462-5834
5. Foreign Agricultural Service (FAS)  
Jim Higginston, Agricultural Attaché (resident in Warsaw)  
7, Kudriavsky Uzviz, 2nd Floor, Kyiv 04053, Ukraine  
Tel/Fax: (380-44) 417-1268, 417-1285  
E-mail: [agkiev@usda1.sprint.com](mailto:agkiev@usda1.sprint.com)
6. Public Affairs Section (PAS)

Janet Demiray  
63 Melnykova Vul., Kyiv 04050, Ukraine  
Tel: (380-44) 213-2532, 246-8221, 246-8222  
Fax: (380-44) 213-3386  
E-mail: [info@usis.kiev.ua](mailto:info@usis.kiev.ua)  
<http://www.usis.kiev.ua>

7. Peace Corps  
111-a Saksahanskoho, Kyiv 01032, Ukraine  
Tel: (380-44) 220-1183, 220-1793, 220-5706  
Fax: (380-44) 220-6351

## B. U.S. CONTACTS IN THE UNITED STATES

1. U.S. Department of Commerce  
International Trade Administration  
14th & Constitution Ave., N.W., Washington, DC 20230

U.S. & Foreign Commercial Service  
Office of International Operations  
Russia/NIS Program Office  
Betty Smith, Deputy Director  
Tel: (202) 482-5402; Fax: (202) 482-2456

Market Access and Compliance (MAC)  
Christine Lucyk, Senior Policy Advisor – Ukraine  
Tel: (202) 482-2018; Fax: (202) 482-4505

Business Information Service for the Newly Independent States (BISNIS)  
Ann Grey, Director  
Jeffrey Kamins, International Trade Specialist  
Ronald Reagan Building  
14th & Constitution Ave. N.W.,  
Washington, DC 20230  
Tel: (202) 482-4655; Fax: (202) 482-2293 or 1-800/USA-TRADE  
E-mail: [bisnis@ita.doc.gov](mailto:bisnis@ita.doc.gov)  
<http://www.bisnis.doc.gov>

Special American Business Internship Training Program (SABIT)  
Liesel Duhon, Director  
14th & Constitution Ave. N.W., Room 3319  
Washington, DC 20230  
Tel: (202) 482-0073; Fax: (202) 482-2443  
E-mail: [SABIT@usita.gov](mailto:SABIT@usita.gov)  
<http://www.mac.doc.gov/sabit/sabit.html>

Office of Multilateral Development Banks  
Janet Thomas, Acting Director  
USA Trade Center  
Ronald Reagan Building, Mezzanine Level  
Washington, DC 20230  
Tel: (202) 482-3399; Fax: (202) 482-3914

<http://www.ita.doc.gov/mdbo>

Trade Information Center  
14th & Constitution Ave., N.W., Room 7424  
Washington, DC 20230  
Tel: (800) USA-TRADE or (800) 872-872; Fax: (202) 482-4473  
E-mail: [TIC@ita.doc.gov](mailto:TIC@ita.doc.gov)  
<http://www.infoserv2.ita.doc.gov/tic.nsf>

2. U.S. Department of Agriculture (USDA)

Foreign Agricultural Service  
14th & Independence Ave., S.W., Washington, DC 20250-1000  
Tel: (202) 720-3935, Fax: (202) 720-7729  
E-mail: [fasinfo@fas.usda.gov](mailto:fasinfo@fas.usda.gov)  
<http://www.fas.usda.gov>

3. U.S. Department of Energy  
Dr. Terry R. Lash, Director  
Office of Non-proliferation and National Security  
1000 Independence Ave., SW, Room 4B-179  
Washington D.C., 20585  
Tel: (202) 586-6641  
Fax: (202) 586-0862  
<http://www.fe.doe.gov>

4. U.S. Trade and Development Agency (USTDA)  
Daniel Stein, Regional Director (NIS)  
Melissa Eustace, Country Manager  
1621 North Kent St., Suite 200, Arlington, VA 22209-2131  
Tel: (703) 875-4357, fax: (703) 875-4009  
E-mail: [info@tda.gov](mailto:info@tda.gov)  
<http://www.tda.gov>

C. AMCHAM AND/OR BILATERAL BUSINESS COUNCILS

1. American Chamber of Commerce in Ukraine

Jeff Howley, President  
Jorge Zukoski, Executive Director  
42-44 Shovkovychna Vul., LL2  
Kyiv 01004, Ukraine  
Tel: (380-44) 490-5800; Fax: (380-44) 490-5801  
E-mail: [acc@chamber.ru.kiev.ua](mailto:acc@chamber.ru.kiev.ua)  
<http://www.amcham.kiev.ua>

2. U.S. – Ukraine Business Council

Kempton Jenkins, President  
1615 L Street, N.W., Suite 900  
Washington, DC 20036

Tel: (202) 778-1065, 955-4504  
Fax: (202) 466-6002, 955-4506

D. UKRAINIAN TRADE AND INDUSTRY ASSOCIATIONS

Ukrainian Union of Industrialists and Entrepreneurs  
Anatoliy Kinakh, President - now PM  
34, Khreshchatyk Vul., Kyiv 01001, Ukraine  
Tel: (380-44) 224-8346; Fax: (380-44) 226-3152

Union of Small, Medium and Privatized Enterprises  
Yuriy Yekhanurov, Honorary President  
16, Shevchenko Blvd., Kyiv 252601, Ukraine  
Tel/Fax: (380-44) 224-1219

International Union of Ukrainian Businessmen  
Roman Dyakiv, President  
2-v, Pyrohova Vul., Kyiv 01030, Ukraine  
Tel: (380-44) 228-3308, 224-9832  
Fax: (380-22) 228-8384  
E-mail: BD@iuub.freenet.viaduk.net

Association of Entrepreneurs INFOBUSINESS  
(Grantee of the Center of International Private Enterprise)  
Bohdan Rybak, President  
4, Teriokhina, Vul., Kyiv 04080, Ukraine  
Tel: (380-44) 435-6694, 435-6474  
Fax: (380-44) 435-6581  
E-mail: alexei@infb.carrier.kiev.ua  
<http://www.users.lucky.net.ua/~infb>

Ukrainian League of Enterprises of the Agro-Industrial Complex  
Leonid Kozachenko, President - now DPM  
13, Kostyolna Vul., Kyiv 01001, Ukraine  
Tel: (380-44) 228-5734; Fax: (380-44) 228-6895  
E-mail: root@agroin.freenet.kiev.ua

Chamber of Commerce and Industry (CCI) of Ukraine  
Serhiy Skrypchenko, President  
33, Velyka Zhytomyrska Vul., Kyiv 01601, Ukraine  
Tel: (380-44) 212-2911, 212-2818  
Fax: (380-44) 212-3353

E. COUNTRY GOVERNMENT OFFICES

I. Presidential Administration

Leonid Kuchma, President  
11, Bankova Vul., Kyiv 01220, Ukraine  
Tel: (380-44) 291-5333; Fax: (380-44) 291-6161

Volodymyr Lytvyn, Chief of Staff, Administration of the President  
11, Bankova Vul., Kyiv 01220, Ukraine  
Tel: (380-44) 291-5989

II. Cabinet of Ministers

a. Office of the Prime Minister

Anatoliy Kinakh, Prime Minister  
12/2 Hrushevskoho Vul., Kyiv 01008, Ukraine  
Tel: (380-44) 226-2289, 226-3263  
Fax: (380-44) 226-2608, 293-2093

Oleh Dubyna, First Deputy Prime Minister  
Tel: (380-44) 293-0716, 293-4465

Leonid Kozachenko, Deputy Prime Minister, Agricultural Complex  
Tel: (380-44) 226-2576, 293-2243  
Fax: (380 44) 226-2576

Vasyl Rohoviy, Deputy Prime Minister, Economic Reform  
Tel: (380 44) 293-0615  
Fax: (380 44) 254-0561

Volodymyr Semynozhenko, Deputy Prime Minister, Humanitarian Policy  
Tel: (380-44) 226-2813, 293-3934

Volodymyr Horbulin, State Minister  
State Commission for Defense Industry  
Tel: (380 44) 226-2802

Volodymyr Yatsuba  
State Secretary  
Tel: (380 44) 226-2246

b. Ministries

Ministry of Agricultural Complex  
Ivan Kyrylenko, Minister  
24, Khreshchatyk Vul., Kyiv 01001, Ukraine  
Tel: (380-44) 226-3466, 226-3376  
Fax: (380-44) 229-8545

Ministry of Culture and Arts  
Yuriy Bohutskiy, Minister  
19, Ivana Franka Vul., Kyiv 01030, Ukraine  
Tel: (380-44) 226-2645  
Fax: (380-44) 225-3257

Ministry of Defense

Oleksandr Kuzmuk, Minister  
6, Povitroflotskuy Prospect, Kyiv 03168, Ukraine  
Tel: (380-44) 226-2656, 224-7152  
Fax: (380-44) 226-2015

Ministry of Economics  
Olexandr Shlapack  
12/2, Hrushevskoho Vul., Kyiv 01008, Ukraine  
Tel: (380-44) 226-2315  
Fax: (380-44) 226-3181

Ministry of Education and Science  
Vasyl Kremen', Minister  
10, Prospect Peremohy, Kyiv 01135, Ukraine  
Tel: (380-44) 226-2661  
Fax: (380-44) 274-1049

Ministry of Fuel and Energy  
Stanislav Stashevskiy, Minister  
4, Bohdana Khmelnytskoho Vul., Kyiv 01001, Ukraine  
Tel: (380-44) 226-2273/ 228-0372  
Fax: (380-44) 228-2131

Department of Nuclear Power  
Nur Nigmatullin, Director  
9/11 Arsenalna Vul., Kyiv, Ukraine  
Tel: (380-44) 462-0256, 294-4800  
Fax: (380-44) 224-4021, 462-0561, 221-4394

Department of Oil, Gas and Oil Refining  
Oleksandr Sverdlov, Director  
60 Sichovkykh Striltsiv, Kyiv 04050, Ukraine  
Tel: (380-44) 226-3241/3482, 246-8101  
Fax: (380-44) 211-3010

Ministry of Environment and Natural Resources  
Serhiy Kurykin, Minister  
5, Khreshchatyk Vul., Kyiv 01601, Ukraine  
Tel: (380-44) 226-2428, 228-0644  
Fax: (380-44) 229-8383

Ministry of Emergency Situations and Chornobyl  
Vasyl Durdynets, Minister  
55, Honchara Vul., Kyiv 01030, Ukraine  
Tel: (380-44) 247-3001/ 247-3026  
Fax: (380-44) 247-3144

Minister of Finance  
Ihor Mityukov, Minister  
12/2 Hrushevskoho Vul., Kyiv 01008, Ukraine  
Tel: (380-44) 293-5363, 226-2044



Fax: (380-44) 293-8243

Ministry of Foreign Affairs  
Anatoliy Zlenko, Minister  
1, Mykhailivska Ploscha., Kyiv 01018, Ukraine  
Tel: (380-44) 212-8286, 212-8675  
Fax: (380-44) 226-3169

Ministry of Health  
Vitaliy Moskalenko, Minister  
7, Hrushevsky Vul., Kyiv 01021  
Tel: (380-44) 253-2472  
Fax: (380-44) 253-8162

Ministry of Industrial Policy  
Vasyl Gureyev, Minister  
3, Surikova St., Kyiv 03035, Ukraine  
Tel: (380 44) 245-4778  
Fax: (380 44) 246-3214

Ministry of Internal Affairs  
Yuriy Smirnov, Minister  
10, Academica Bohomoltsa Vul., Kyiv 01024, Ukraine  
Tel: (380-44) 226-2004, 226-2928  
Fax: (380-44) 291-1733

Ministry of Justice  
Suzanna Stanik, Minister  
13, Horodetskoho Vul., Kyiv 01001, Ukraine  
Tel: (380-44) 229-6664  
Fax: (380-44) 229-6664

Ministry of Labor and Social Policy  
Ivan Sakhan, Minister  
8/10, Esplanadna Vul., Kyiv 01023, Ukraine  
Tel: (380-44) 220-9097  
Fax: (380-44) 220-0098

Ministry of Transportation  
Valeriy Pustovoitenko, Minister  
7/9 Shchorsa Vul., Kyiv 03150, Ukraine  
Tel: (380-44) 226-2204  
Fax: (380-44) 268-1041, 268-2202

c. State Committees

State Committee of Statistics  
Oleksandr Osaulenko, Chairman  
3, Shota Rustaveli Vul., Kyiv 01023, Ukraine  
Tel: (380-44) 227-2433, 226-2021  
Fax: (380-44) 227-4266

State Committee for Regulatory Policy and Business Development  
Oleksandra Kuzhel, Chairman  
27, Kominternu Vul., Kyiv 01032, Ukraine  
Tel: (380-44) 220-7679  
Fax: (380-44) 220-9634

State Communications Committee  
Oleh Shevchuk, Chairman  
22, Hreschatyk St., Kyiv 01001, Ukraine  
Tel: (380 44) 229-9571  
Fax: (380 44) 228-6141

State Committee on Urban Construction and Architecture  
Valeriy Cherep, Chairman  
24, Dmytrova Vul., Kyiv 03150, Ukraine  
Tel: (380-44) 226-2208, 244-3982  
Fax: (380-44) 227-2335

State Committee for Energy Efficiency  
Mykola Porovskiy, Chairman  
1 Honty St., Kyiv 04112, Ukraine  
Tel: (380 44) 455-5710  
Fax: (380 44) 456-8023

State Committee for Youth Policy, Sports and Tourism  
Valeriy Tsybukh, Chairman  
42, Esplanadna St., Kyiv 01023, Ukraine  
Tel: (380 44) 220-0366  
Fax: (380 44) 220-1294

d. Other Agencies

National Bank of Ukraine (NBU)  
Volodymyr Stelmakh, Governor  
9, Instytutska Vul., Kyiv 01007, Ukraine  
Tel: (380-44) 226-2914, 293-5973  
Fax: (380-44) 293-1698

State Tax Administration of Ukraine  
Mykola Azarov, Head  
8, Lvivska Ploshcha, Kyiv 04655, Ukraine  
Tel: (380-44) 212-2691/ 247-3301  
Fax: (380-44) 212-0841/ 212-4597

State Customs Service of Ukraine  
Yuriy Solovkov, Chief  
11, Dehtyaryivska St., Kyiv 04119  
Tel: (380 44) 274-8298  
Fax: (380 44) 274-2851

Security Service of Ukraine  
Volodymyr Radchenko, Head  
33 Volodymyrska Vul., Kyiv 01003  
Tel: (380-44) 291-9152  
Fax: (380-44) 226-3431

State Property Fund of Ukraine  
Oleksandr Bondar, Chairman  
18/9 Kutuzova Vul., Kyiv 01133, Ukraine  
Tel: (380-44) 295-1274, 296-6401  
Fax: (380-44) 295-1274

"Naftogas of Ukraine" National Joint-Stock Company  
Vadym Kopylov, Chairman  
6 B. Khmel'nitskoho Vul., Kyiv 01001, Ukraine  
Tel/Fax: (380-44) 229-4579

III. Ukraine's Verkhovna Rada (Parliament)

Verkhovna Rada  
5, Hrushevskoho Vul., Kyiv 01008, Ukraine  
Tel: (380-44) 226-2292, 254-0890  
<http://www.rada.kiev.ua>

Ivan Plyusch, Speaker of the Parliament  
Tel: (380-44) 253-7060  
Fax: (380-44) 293-0653

Viktor Medvedchuk, First Vice Speaker  
Tel: (380 44) 226-2940  
Fax: (380 44) 293-5787

Stepan Havrysh, Vice Speaker  
Tel: (380 44) 226-2940  
Fax: (380 44) 293-5787

F. KEY MARKET RESEARCH FIRMS

Arthur Andersen & Co., SC  
2, Khreshchatyk Vul., Ukrayinskiy Dim  
Kyiv 01601, Ukraine  
Tel: (380-44) 462-0555, 462-0660  
Fax: (380-44) 228-6388

Deloitte & Touche  
5 Prytysko-Mykilska Vul., Kyiv 04070, Ukraine  
Tel: (380-44) 247-6666; Fax: (380-44) 247-6667  
E-mail: [amclaren@dtus.com](mailto:amclaren@dtus.com)

Derzh Zovnish Inform  
22 Vorovskoho Vul., Kyiv 04054, Ukraine  
Tel: (380-44) 216-1636, 216-2937  
Fax: (380-44) 216-2368  
E-mail: [main@dzi.kiev.ua](mailto:main@dzi.kiev.ua)  
<http://www.ukrdzi.com.ua>

Ernst & Young  
3/7 Kiyanivsky Prov., Kyiv 04053, Ukraine  
Tel: (380-44) 212-3564; Fax: (380-44) 212-5225

Harvard Institute for International Development  
10b, Khreshchatyk Vul., Kyiv 01001, Ukraine  
Tel: (380-44) 228-8660, 228-1349  
Fax: (380-44) 228-1349  
E-mail: [hiid@hiid.kiev.ua](mailto:hiid@hiid.kiev.ua)  
<http://www/harvard.kiev.ua>

International Center for Policy Studies  
8/5 Voloska Vul., Kyiv 04070, Ukraine  
Tel: (380-44) 463-6337, Fax: (380-44) 463-5970  
<http://www.icps.kiev.ua>

Institute of Reforms  
14-B Dymytrova St., Kyiv 03150, Ukraine  
Tel: (380-44) 239-2315  
Fax: (380-44) 246-6525  
<http://www.ir.org.ua>

KPMG  
8b Velyka Zhytomyrska Vul., Kyiv 01025, Ukraine  
Tel: (380-44) 490-5507; Fax: (380-44) 490-5508  
E-mail: [ardo@kpmg.kiev.ua](mailto:ardo@kpmg.kiev.ua)

PricewaterhouseCoopers  
38, Turgenivska Vul., Kyiv 04054, Ukraine  
Tel: (380-44) 247-6777; Fax: (380-44) 216-4558

#### G. MULTILATERAL DEVELOPMENT BANK OFFICES IN UKRAINE

World Bank Field Office (IBRD)  
Gregory Jedrzejczak, Chief of Mission  
2 Lysenka Vul., Kyiv 01032, Ukraine  
Tel: (380-44) 490-6672  
Fax: (380-44) 490-6670  
<http://www.worldbank.org>

European Bank for Reconstruction and Development (EBRD)  
Andrew Seton, Resident Representative  
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E-mail: Kiev@kev.ebrd.com  
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International Finance Corporation (IFC)  
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Dmytro Kryshchenko, Resident Representative, Corporate Finance Services  
Amanda Leness, Project Manager, Post-Privatization Project  
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Tel: (380-44) 293-0662, 293-0657  
Fax: (380-44) 490-5830  
<http://www.ifc.org>

International Monetary Fund (IMF)  
Henri Ghesquire, Senior Resident Representative  
Bohdan Lyssovolyk, Resident Representative  
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Fax: (380-44) 490-7005  
<http://www.imf.org>

Listed below are market research and “market insight” reports completed or planned by CS Kyiv. Contact our office for details. A complete selection of reports for Ukraine is also available on the National Trade Data Bank (NTDB). The NTDB is the U.S. Government’s most comprehensive source of world trade data and offers one-stop shopping for trade information from more than 20 federal sources.

#### **Completed Industrial Sector Analysis (ISAs):**

- |                                       |                 |
|---------------------------------------|-----------------|
| - Satellite Communications in Ukraine | (February 2001) |
| - Card Payment Systems in Ukraine     | (February 2001) |
| - Sporting Goods in Ukraine           | (March 2001)    |
| - Gas Filling Station Equipment       | (April 2001)    |
| - Building Materials                  | (May 2001)      |
| - Internet Security - Ukraine         | (June 2001)     |

#### **2001/2002 Planned ISAs:**

- |   |                |
|---|----------------|
| - Automotive And Car Care Chemical Market In Ukraine                                      | (October 2001) |
| - Market of Cleaning Products in Ukraine  | (March 2002)   |
| - Gas Metering Equipment Market in Ukraine  | (March 2002)   |
| - Soft Drinks Market in Ukraine   | ( June 2002)   |
| - Mobile Communications in Ukraine  | (June 2002)    |
| - Remediation of Contaminated Sites – Equipment and Services - Environmental Technologies | (July 2002)    |

#### **Completed International Market Insights (IMIs):**

- Ukraine: Business Opportunities In The Special Economic Zone Of Donetsk Oblast;

- Dentistry '2000 Specialized Exhibition Held In Kiev, Ukraine (September 5-8,2000);
- Ukrainian Economic Forum, December 6-8, 2000;
- Procurement Opportunity - Fuel Purchase For Thermal Power Generating Companies;
- Update On Procedures For The Registration Of Pharmaceutical Products In Ukraine;
- CS-Kiev Participation In A Seminar "Foreign Programs And Opportunities For Cooperation" In Odesa;
- The Consolidation Of The Mobile Communications Market In Ukraine;
- Kiev Ukraine "Public Health'2000" Show (November 6-9, 2000) - End Of Show Report;
- USCS Kiev Offers Valuable Market Exposure For U.S. Firms And Associations At The ELCOM' 2001;
- Usfcs Kiev Offers Valuable Market Exposure For U.S. Firms And Associations At Enterex 2001 Show;
- Mobile Internet In Ukraine;
- Alert Report: Procurement Opportunity For Gas Pipeline Equipment Suppliers;
- Two Major Ukrainian Tourism Trade Shows,
- Ukraine Creates Alliance Of Domestic Air Carriers;
- Cs Kiev Offers Market Exposure To U.S. Energy Firms And Associations At Energy Forum Ukraine' 2001 Trade Show And The Energy Security Conference (May 22-25, 2001);
- Report On The Oil & Gas' 2000 Trade Show, Kiev, October 23-26, 2000;
- Internet Banking In Ukraine;
- Medical Industry Trade Shows In Ukraine For 2001;
- Alert Report - Usfcs Kyiv Offers Market Exposure To U.S. Agri-Food Firms And Associations At "Interfood/ Interfood Tech Ukraine 2001" And "Kiev Agrihort 2001" Exhibitions (March 27-30, 2001);
- Fcs Kiev/ Ukraine Participated In Food&Drinks' 2000 Trade Show (November 15-18);
- Alert Report: Air Navigation Systems Upgrading Project. Sales Opportunity;
- Alert Report: Ukraine Air Navigation System Upgrading Project. Invitation For Qualification;
- Ukrainian Defense Industry Projects;
- Ukrainian Compressor Manufacturer Looking For Strategic Partner;
- Frequency Tariffs For Gsm Spectrum Go Down In Ukraine;
- Cs-Kiev Participation In Packers Club Annual Membership Meeting;
- Dry Mixes , Plasters And Stucco Market In Ukraine;
- Restructuring Ukrainian Pharmaceutical Industry;
- Wallpaper Market In Ukraine;
- Status Update On Ukrainian Civil Airports;
- Investment Opportunities With Bukros And Plast Oil And Gas Extraction Companies In Poltava Region;
- Alert Report: Procurement Opportunity For Central Heat Supply System Fittings And Jacks Suppliers;
- Wireless Commerce In Ukraine;
- Market Exposure For U.S. Firms And Associations At "Cottage 2001 Show";
- Opportunity For Setting Up A Gas Station Network In Ukraine;
- First Usa Pavilion In Ukraine Features Nine Leading U.S. Computer Companies;
- Alert Report: Procurement Opportunity For Ukraine's Air Navigation Systems Upgrading Project;
- New Appointments In The Energy Sector Of Ukraine;
- Market Exposure For U.S. Firms And Associations At "Motor Show Sia 2001";

- Update On Personal Computer Market In Ukraine;
- Alert Report: Procurement Opportunities Within Kyiv Public Buildings Energy Efficiency Project;
- Ukraine Plans To Start Developing Digital Television;
- Dramatic Expansion Of Mobile Communications Market In Ukraine;
- Linoleum Floor Covering Market In Ukraine;
- The Procedure For Registration Of Medical Equipment And Medical Use Products;
- Government Of Ukraine Sells Its Share In Umc, The Biggest Cellular Operator In Ukraine;
- Ukrtelecom Network And Revenues Report;
- Paint, Varnish And Enamels Market In Ukraine;
- "Corporate & Banking Systems "Trade Show Held In Kiev, Ukraine, March 13-16, 2001;
- Alert Report: Procurement Opportunity For The Railway Development Project;
- Alert Report: Procurement Opportunity - Tender For Purchase Of Telecom Equipment For The State Export-Import Bank Of Ukraine;
- Ukrainian Government Selected An Adviser In Privatization Of Ukrtelecom;
- New Trade Show For Laboratory Equipment Launched In Kiev, Ukraine;
- Market For Domestic Water Purification Systems And Water Filters In Ukraine;
- Largest Food Industry Showcase Held In Kyiv, Ukraine;
- FCS Kiev/ Ukraine Participated In The "World Food Ukraine" And "Kyiv Agrihort" Exhibitions.

The **International Buyer Program (IBP)** is a joint government-industry effort designed to increase U.S. export sales by promoting major U.S. industry exhibitions to overseas markets. The U.S. Department of Commerce recognizes leading U.S. trade shows in industries with high export potential. Practice, hands-on assistance is provided to U.S. exhibitors interested in exporting and making contacts with prospective qualified overseas trade partners. The list of Post supported IBP's will not be available until October 1, 2000. For addition information about IBP, please contact the U.S. Department of Commerce, Tel: (202) 482-0115, Fax: (202) 482-0872.

## LOCAL EXHIBITIONS

Exhibitions are becoming more and more popular in Ukraine. This is evidenced not only by the increase in the number of exhibitions, but also by the number of companies participating at these exhibitions. The most popular subjects for exhibitions are: building materials, consumer goods, foodstuff, furniture, packaging and pharmaceuticals.

### **2001/2002 Exhibitions to be held in Kyiv, Ukraine**

Note: For contact and location information, please refer to the contact listing immediately following the exhibition schedule.

#### **2001**

October 29-November 1      OIL & GAS' 2001  
 - technologies and equipment for oil, gas and oil refining industries

(5,6)

## 2002

- February TBD                      ENTEREX'2002                      (2)  
- communication technologies, computer systems
- March TBD                      KYIV AGRIHORT & WORLD FOOD UKRAINE                      (9)  
- agricultural machinery and tools, irrigation equipment, seeds and seedlings, fertilizers, processing technology; horticulture; greenhouse technology
- April 3-6                      UITT'2002                      (3,8)  
- major international travel&tourism show in Ukraine, inbound, outbound tourism, tour operators, hotels, airlines, theme parks, water parks, concept developers, design
- April 18-21                      Cottage'2002                      (1)  
- construction and building materials
- April TBD                      ELCOM-UKRAINE                      (2)  
- power generation; power transmission; power distribution; industrial electrical equipment; drives and standard products; automation; lighting
- May 22-26                      SIA 2002 MOTOR SHOW                      (7)  
- personal and freight motor vehicles, transport, spare parts, service facilities, accessories, lubricating products and equipment, instruments, motor-oriented facilities
- May TBD                      ENERGY FORUM Ukraine                      (4)  
- electric power systems, industrial electrical equipment; oil and gas equipment and services; energy conservation engineering, equipment and services; alternative sources of energy, registration and control devices; industrial and household energy efficiency appliances

### Contacts:

- (1) Arcada Open Joint Stock Company  
40-richja Zhovtnya Avenue, 50, Kiev, 03039, Ukraine  
Phone/fax: 380 (44) 263-1039, 380 (44) 263-1049  
E-mail: [arkada@public.ua.net](mailto:arkada@public.ua.net)  
[Http://www.arcada.com.ua](http://www.arcada.com.ua)
- (2) Euroindex  
P.O. Box 726, Kyiv 252032, Ukraine  
56, Peremohy Prospect, Kyiv 252058, Ukraine  
Tel: (380-44) 441-2573, 441-2774  
Fax: (380-44) 441-2413, 441-2470  
E-mail: [enterex@eindex.kiev.ua](mailto:enterex@eindex.kiev.ua)  
<http://www.euroindex.com.ua>
- (3) ITE Group  
105 Salisbury Road, London NW6 6RG, UK  
Tel: (44 -0) 207-596-5000  
Fax: (44 -0) 207-596-5111  
[www.ite-exhibitions.com](http://www.ite-exhibitions.com)



- (4) Ukrenergozberezhennia JSC  
Maryna Tymoschenko, Manager  
Tel: (380-44) 458-0418; Fax: (380-44) 446-8023
- (5) Novea International  
55, Bohdana Khmelnytskoho Vul., Kyiv 252054, Ukraine  
Tel: (380-44) 246-8313; Fax: (380-44) 246-8314
- (6) National Exhibition Center  
Ukrainian State Center for Exhibitions & Trade Fairs  
1, Hlushkova Prospect, Kyiv 252022, Ukraine  
Tel: (380-44) 251-9113/14/54/9280  
Fax: (380-44) 251-9112, 251-9126
- (7) AUTOEXPO  
29-A Electikov St., Kyiv 04176, Ukraine  
Tel: (380 44) 462-5929; Fax: (380 44) 462-5981  
[www.autoexpo.relc.com](http://www.autoexpo.relc.com)
- (8) Sport Palace  
Kyiv, Ukraine  
Tel: (380-44) 212-5973; Fax: (380-44) 212-2982
- (9) ACCO International  
40-B Peremohy Ave., Kiev 04054, Ukraine  
Tel: (380-44) 446-3802, 446-3804  
Fax: (380-44) 458-4624, 446-3808  
E-mail: [acco@carrier.kiev.ua](mailto:acco@carrier.kiev.ua)

Note: Exhibitions provide a good opportunity to obtain first hand knowledge of the market and prospective competitors and also for testing Ukraine's receptivity towards U.S. products. The Commercial Service, Kyiv urges those interested in participating or attending any of the above exhibitions to contact the exhibition organizer directly.

For more detailed up-to-date information on upcoming exhibitions in Ukraine, please contact:

U.S. Commercial Service  
7, Kudriavsky Uzviz, Kyiv 04053, Ukraine  
Tel: (380-44) 417-2669, 417-1413; Fax: (380-44) 417-1419  
E-mail: [kiev.office.box@mail.doc.gov](mailto:kiev.office.box@mail.doc.gov)

#### SHOWCASE EUROPE / OTHER TRADE EVENTS:

Showcase Europe offers a new way of doing business by highlighting Europe as a single market, the largest export market for U.S. companies. Below are listed trade promotion events which are part of the Showcase Europe program where CS-Kiev specialists are likely to attend.

- U.S.-Central Europe Airport Infrastructure and

November 4-7, 2001

Management Conference/Trade Show,  
Salzburg, Austria  
(aerospace)

- ITIC, Athens, Greece  
(travel&tourism)

Spring 2002

- European ET Partnering Event, Athens, Greece  
(environmental technologies)

Spring 2002

- CEBIT'2002, Hanover, Germany  
(telecommunications)

March, 2002

- Waste Expo, Las Vegas, NV  
(environmental technologies)

April 3-5, 2002

- Power-Gen Europe, Milan, Italy

June 11-13, 2002

- Farnborough Air Show, Farnborough, UK  
(aerospace)

June 22-28, 2002

If interested in receiving information regarding participation in the U.S. pavilion at one of these trade events, please contact your local Commercial Service office or the U.S. Commercial Service in Lisbon.

Showcase Europe key sectors include: Aerospace, Auto Parts, Energy, Environment, Franchising, Information Technologies, Medical & Pharmaceutical, and Travel & Tourism.

For more information, please contact:

U.S. Commercial Service  
American Embassy – Lisbon  
PSC 83 BOX FCS  
APO AE 09726

Tel: (351-1) 727-3300; Fax: (351-1) 726-8914  
E-mail: [Office.Lisbon@mail.doc.gov](mailto:Office.Lisbon@mail.doc.gov)  
<http://www.sce.doc.gov>